

JPRS-CAR-87-025

27 JULY 1987



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# ***JPRS Report***

# **China**

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27 JULY 1987

## CHINA

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## BEIJING FORUM DISCUSSES U.S.-USSR RELATIONS

HK010900 Beijing SHIJIE ZHISHI in Chinese No 9, 1 May 87 pp 2-12

["Summary of a forum on U.S.-USSR Relations and the Trends of Their Policies Toward Each Other"--passages within slantlines published in boldface]

[Text] Editor's note: U.S.-USSR relations and the trend of their policies toward each other are major issues in the international situation. We hope the United States and the Soviet Union will improve their mutual relations and reach agreements on a series of questions including arms control and regional contention, which do not harm the interests of other countries, in order to contribute to world peace. however, the questions are very complicated and there are both positive and negative factors. We have to observe and analyze them from various angles and various levels in order to understand their real situation and the trend of their development. During the first 10 days of April our journal invited researchers of international affairs to a forum in Beijing to discuss these questions from various angles and they all aired their own views. Some views were similarly and some were different; some complemented each other and some refuted each other. in accordance with the spirit of letting a hundred schools of thought contend to promote our academic research our journal has compiled and published their views truthfully for our readers. [end editor's note]

The Strategic Stalemate in U.S.-USSR Relations--by Song Boaxian [91345 1405 6343] of the Institute of Contemporary International Relations.

I am glad to be able to attend this forum and would like to be the first to say something about U.S.-USSR relations and the U.S.- Soviet policy in an attempt to draw out valuable opinions from other participants.

Some New Characteristics in the Strategic Stalemate

In my opinion some new characteristics have appeared in U.S.-USSR relations:

/1. The international and domestic policies of both the United States and the Soviet Union have never been closely related as they are today./ Gorbachev said that Soviet international and domestic policies have never been as closely related to each other as they are today. Reagan's foreign policy is greatly restrained by the U.S. Congress and the domestic economic situation.

/2. The United States and the Soviet Union not only have their eyes on the present but also on the 21st century in their current contention./

/3. The competition between the United States and the Soviet Union has already become a competition of their national strength as a whole. They are not only attaching importance to military competition but also to competition in science and technology and economics. /Although both sides have their respective strong points and weak points, judging from the general situation, they are still in a strategic stalemate which will not be easily broken by the end of this century.

/4. Both the U.S.-USSR arms race and their talks on arms control have entered a new stage. The arms race and arms control talks have been pushed forward at the same time and have been affecting each other. The so-called new stage in the arms race is a stage in which they are changing from paying special attention to the development of nuclear strength to paying special attention to the establishment of a strategic system with both offensive and defensive capabilities and with space weapons as the main component. In the future their arms race will be carried out in the following two fields: 1) increasing the subsistence and penetration abilities of strategic weapons, in other words, improving their quality, and 2) opening up a new sphere, that is, the strategic defense system, or the sphere in outer space. The so-called new stage in arms control talks means that the talks may proceed at a pace faster than expected and that the agreements they reach in the future will possibly not be upward-balanced as before, but be downward-balanced.

/5. On the question of regional contention the United States and the Soviet Union have their respective strong points and weak point. They are making use of each other and are both changing their methods./ Although consultations between them increase, it will be difficult to reach any agreement. On the Soviet side it is possible that the following situation will appear: the ideological color and direct military means may be reduced, but diplomatic and economic means may increase.

/6. Both the United States and the Soviet Union will relax control over their allies and both U.S. influence on Soviet allies and Soviet influence on U.S. allies and their infiltrations into each others allies will be enhanced./

Through Strength and Talks and United States Makes Use of the Difficulties Facing the Soviet Union To Force the Latter To Make a Concession

Generally speaking, the current U.S.-Soviet policy is to come into contact with the Soviet Union on the basis of strength. I think we can summarize this policy with the following points:

1. To further widen the gap between the United States and the Soviet Union in the science and technology and economic fields by pushing forward the "second revolution" centered on the scientific and technological revolution to enhance the overall national strength of the United States, will make it able to be in a more favorable position in the next century.

2. To take advantage of the current difficulties of the Soviet Union to force them into an arms race with the United States in order to contain and destroy the Soviet acceleration strategy. Meanwhile, to continue to carry out the Strategic Defense Initiative (SDI), attempting to establish an offensive-defensive strategic system earlier than the Soviet Union to attain military superiority over them.

On the question of arms control talks the United States has three basic policies: 1) proceeding from its position of strength, to strive to reach an agreement with the Soviet Union which is favorable to the United States; 2) SDI can be discussed but no talks or agreements will hinder its implementation; and 3) strive through negotiations to reduce the number of land-based intercontinental ballistic missiles, on which the Soviet Union has gained the upper hand.

3. To practice Reaganism in the Third World, that is to support anti-Soviet "freedom fighters" in hot spots and carry out a limited push-back policy against the Soviet Union. If it does not succeed at least it will make the Soviet Union pay a higher price.

4. To further harmonize its relations with the allies, especially on questions of strategy against the Soviet Union. This is particularly the case with its West European allies. As for Japan, it only requires that it shoulder more military responsibilities so that they can jointly deal with the Soviet pressure in the western Pacific region.

5. To maintain the trend of development in U.S.-Chinese relations while trying to contain the further improvement of Sino-Soviet relations.

6. Toward socialist countries and Third World countries it advocates democracy in political affairs and liberalization in economic affairs. In the economic field it emphasizes democracy and freedom, including human rights. The general purpose is to make the political, economic, and social systems of socialist countries and Third World countries turn more favorable orientation toward the United States in order to prevail over the Soviet Union in an all-round way and in all parts of the world. This is a long-term plan of the United States.

Reagan Still Has High Prestige, and His Policies Tends to be More Flexible and More Realistic

Following the Irangate incident Reagan's prestige was seriously damaged and his rate of support dropped by 40 percent. But I believe that in the United States many people are still well disposed towards him. There are three main reasons for this.

1. Reagan has achieved relatively satisfactory successes in implementing his conservative economic policy based on the supply-side theory. The U.S. economy is growing and the people's livelihood is improving. 2. Compared with the Carter's time, the U.S. position of strength against the Soviet

Union and its international position have all been raised. Most common people believe that he is doing quite well. 3. Americans think that Reagan is more open-minded in running affairs and usually speaks out on whatever is on his mind. Moreover he is resolute in doing things. All this reflects the personalities of Americans.

Being affected by the Irangate incident did cause some changes in U.S. national affairs. First, following the numerous personnel changes, the strength of the conservative faction in the Reagan Administration, or of the extreme conservative faction, was relatively weakened while that of the mild conservatives was strengthened. Second, the relative strength of the Republicans and Democrats at the national level tended to be balanced.

The current situation is characterized by the coexistence of the Republicans' government and the Democrats' Congress. Recently, Congress has successfully repudiated Reagan's vetoes on the water purification bill and the highway construction bill. To Reagan, this is quite a hard blow. It shows that the conflicts between Reagan and the Congress will be further sharpened in the future.

Now there are only 21 months left in Reagan's term of office. There are no signs that any substantial changes will take place in the existing international and domestic policies.

However, Reagan will become more flexible and realistic in the future. It is unlikely that such things as directly sending troops to invade Grenada and the air raid [on] Libya will ever be repeated. /Reagan will do whatever he can to maintain a stable situation while striving to make some breakthrough and achievements in certain spheres. Under these circumstances I think it is quite possible that the United States and the Soviet Union will reach an agreement on the question of medium-range missiles./

Not long ago someone in the White House said that Reagan would mainly accomplish the matters of SDI and the U.S.-USSR arms talks. This does not seem to be mere propaganda. It reflects real consideration.

A Good Opportunity Has Slipped by for Making a Breakthrough in U.S.-USSR Relations--By Jin Junhui [6855 0689 2547] of the Chinese Institute of International Studies.

Just now Comrade Song Baoxian said that during Reagan's term of office it is possible that a breakthrough will be made in certain spheres of U.S.-USSR relations. But in my opinion it seems that a good opportunity has already slipped by for making a breakthrough in U.S.-USSR relations during Reagan's term of office.

Very Little Headway Has Been Made in U.S.-USSR Relations Over More Than the Past Year

Originally, 1985 and 1986, the 2 years immediately after Gorbachev came to power, provided the United States and the Soviet Union with a comparatively



good opportunity to reach a compromise on certain questions and to improve their mutual relations. First, the new Soviet leader actually needed a breathing spell, that is, a relatively relaxed international environment, to accelerate the development of the domestic economy. Second, through Reagan's efforts during his first term of office, the United States had gained a comparatively favorable position in its global contention with the Soviet union. Thus, Reagan was able to make use of this position of strength to strive for reaching a certain compromise through negotiations, which would be favorable to the United States. Third, there was an increasing demand in the world to ease international tension and an increasing pressure on the two superpowers as well. After the Geneva summit meeting held in November 1985, the United States and the Soviet Union reached an understanding on exchanging visits in the next 2 years. Thus, the year 1986 was even more promising. I remember that at the forum held by SHIJIE ZHISHI at the end of 1985 to discuss the international situation, most participants thought that there was a trend of relaxation in U.S.-USSR relations. Instead, they are being intensified. The Iceland meeting, which was held in haste, also broke up in discord. Even the proposal on the exchange of greetings by the two heads on television, which was made at the beginning of 1987, was rejected by the Soviet Union. Obviously, compared with the beginning of last year, U.S.-USSR relations were much cooler at the beginning of this year./

The United States: Bears Down With Terrifying Force, Demanding a High Price, But the Soviet Union Is Flexible in its Tactics, Refusing To Make a Concession if the United States Does Not Pay the Same Price

Apart from the sharp, world-wide conflict of interests between the United States and the Soviet Union, there are also the following reasons for the above-mentioned developments in the situation.

1. Since the United States is in a relatively favorable position and understands very well that the Soviet Union is eager for a breathing spell, it has become very arrogant and demanded a high price for relaxation. For example, it implemented "push back strategy" and the idea of "low-intensity war," absolutely to the neglect of the Soviet proposal and action on the unilateral moratorium on nuclear testing. It carried out an air raid on Libya, sent warships to the deep territorial waters of the Soviet Union, declared that it would break the limit set by the Salt II agreement and carry out SDI resolutely and accelerate its development and research. the aggressive behavior of the United States is unacceptable to the Soviet Union.

2. There is also a condition for the new Soviet leader while demanding relaxation, that is, the Soviet Union cannot lose its position and spheres of influence that it has already obtained in the international arena, nor can it lose the basic balance with the United States in military affairs. in a word, the Soviet Union cannot really make a unilateral, important, and substantial concession. For this reason, although Gorbachev is quite resolute in pushing forward domestic reform, it seems that he will not make new and important changes in his foreign policy. The main changes in the Soviet Union are the changes in its tactics and methods, aimed at changing its image in the

international arena and improving its relations with Western Europe, Japan, and China in order to isolate the United States and weaken the U.S. position in negotiations. To analyze it in detail, /although the Soviet Union has put forward many proposals and made a number of concessions--some of them are significant concessions--all this has been done on the premise that the other side will make corresponding concessions and pay the same price./ For example, on the question of nuclear disarmament, the Soviet Union insists on placing restrictions on the U.S. SDI; on the Afghanistan question, it insists that it should first have a so-called political pledge that there will be no foreign interference in Afghan affairs;; in its relations with Japan it will never give in on the question of the occupation of the four northern islands; in its relations with China it has said more than it has done; and on the key Cambodian issue it refuses to take a step forward.

/Gorbachev's practices in handling international affairs can be summarized as follows: making unremitting efforts to gradually soften the other side and putting concessions and traps together./ For example, in the "zero option" on the issue of medium-range missiles, there are both concessions and traps. On regional questions he has adopted a method of walking with small steps, such as withdrawing six regiments of troops from Afghanistan and withdrawing an armored division from Mongolia. In short, by using this flexible method in foreign affairs, the Soviet Union is trying to change its image and create a certain atmosphere of relaxation so that the other side may be forced to make a concession that suite its ideas.

While one superpower was bearing down with terrifying force and asking a high price, the other superpower still greeted it with a smile but would not make substantial concessions without being paid the same price. This was the stalemate and confrontational situation between the United States and the Soviet Union in 1986.

It Is Hard for Reagan to Accomplish Anything Important, and the Soviet Union Will Not Present a Free Gift

It seems that it is very difficult for Reagan to change this basic situation in the remaining more than 1 and 1/2 years in his term of office. The following are my reasons:

1. It is hard for Reagan to accomplish anything important in his situation and position. The improper handling of the matters concerning the Irangate incident and the Reykjavik talks, the fact that the Democrats have control of both the Senate and the House of Representatives, and the poor economic situation in the United States have greatly weakened Reagan's position both at home and abroad. The 1988 presidential election is approaching and the main topic of discussion in the United states will soon be concentrated on the two parties' election contest. U.S. foreign policy and all practices will have a to be considered form an angle of the domestic election campaign. moreover, since the conservative ideological trend is still in a dominant position in the United states, Reagan will continue to find it difficult to reach a compromise with the Soviet Union.

All this will make Reagan become more cautious in handling U.S.-USSR relations. he can neither be too strong nor too weak. Under these circumstances it will be very difficult for the United States and the Soviet Union to achieve any substantial breakthroughs in their disarmament talks and their mutual relations.

2. On the Soviet side, although it wants to reach a certain compromise with the United States, it will never suffer losses. As the U.S. presidential election approaches the Soviet Union is likely to be unwilling to reach any agreement with the United States which will provide political support for Reagan and the Republican Party in the election campaign. If Reagan does not make any corresponding concessions the Soviet Union will certainly not let him gain extra advantages. This has also added difficulties to the United States and the Soviet Union in reaching any agreement.

3. Western Europe is on guard against the Soviet Union. It is apprehensive that the Soviet Union may disintegrate U.S.-European relations and weaken the Western alliance. On the question of medium-range missiles in Europe it holds that if a certain understanding is not reached on the question of short-range missiles or even on the question of conventional weapons, the situation will be favorable to the Soviet Union. /Although Western Europe hopes that the tense situation in Europe will relax to a certain extent, it does not expect Reagan to become a weak negotiator. Instead, it is encouraging Reagan to adopt a flexible and firm stand./

4. Both the United States and the Soviet Union do not have faith in each other and always suspect each other. Very often chance occurrences result in the intensification of their relations and affect their talks and efforts to reach a compromise. We can cite some examples, such as the South Korean airliner incident in 1983, the incident of a U.S. army major being shot in 1985, the incident of Soviet espionage in the U.S. Embassy, and the Daniloff incident.

Therefore, an initial conclusion I have drawn from this is: /It is still very difficult for the United States and the Soviet Union to reach an agreement on medium-range missiles in Europe or any other disarmament agreements during Reagan's term of office; and no agreement can be reached within 1 or 2 years on the question of regional clashes./ Even if some agreements are reached, such as an agreement on medium-range missiles in Europe, they will not be substantial agreements. They will only show that U.S.-USSR relations are chiefly characterized by the confrontation between both sides with uninterrupted dialogues and they are sometimes tense and other times relaxed. There will be no great changes in this general situation./

Limited Relaxation Might Possibly Appear--by Guo Tong [6753 6639], SHIJIE ZHISHI special contributor

In the first 5 years of the 1980's, U.S.-USSR relations were in a stage of tension and confrontation. Judging from the fact that both the United States and the Soviet Union are readjusting their foreign policies, a stage of limited



relaxation might possibly appear. Now we can say that /the highest point of tension in U.S.-USSR relations has basically passed, and there are already conditions for their relations to enter a stage of limited relaxation./ Of course, the kind of relaxation that existed in the 1970's will not reappear.

#### It Is Possible To Reach an Agreement on Medium-Range Missiles, But It Is Difficult To Reach a Substantial Agreement

In my opinion, in the 1970's the United States was more active than the Soviet Union in promoting talks on arms control. Now the situation is quite the contrary. The Soviet Union is very active and the United States still remains inactive. It seems that the United States still has not yet made up its mind to reach an overall agreement with the Soviet union on the question of arms control, not even an outlined or principled agreement or an agreement like the 1971 Vladivostok Agreement. It is still wavering on this question. Reagan has now personally become more active and enthusiastic, but there are also more difficulties for him. Therefore, during Reagan's term of office, although there are greater possibilities for reaching an agreement on certain questions, such as the medium-range missile issue, there are fewer possibilities for reaching a substantial agreement. If things had not happened both inside and outside the United States recently, which have weakened Reagan's position, Reagan might have possibly worked out some guiding principles for overall arms control before further carrying out the talks. now, although he still wants to work out these principles he may not succeed. Even if these principles are worked out, are they favorable to himself and the Republican party? Many controversies may thus be evoked.

The possibility still exists on medium-range missiles, but there are also many difficulties. I believe that if an agreement is reached this year, it will only be an agreement of political significance. It can be said that it will be the first agreement of arms control since the United States and the Soviet Union began their talks on this issue, which is characterized by being downward-balanced rather upward-balanced and which bears the true nature of arms reduction. However, judging from a long-term point of view, it will not be militarily significant and will not be a substantial agreement. If such an agreement is reached, it can only play a role of embellishment as both sides have considered. Reagan hopes that he can do something to prepare for the presidential election and to contribute to the Republican Party. On the other hand, Gorbachev also wants to make certain achievements in these 2 years. However, /the real intention of the Soviet Union is still on the SDI issue. It is trying to maintain the strategic balance./

If an agreement cannot be reached this year, it will be more difficult in the future, because without an agreement on medium-range missiles, it will be more difficult to reach other substantial agreements, such as agreements on restricting offensive strategic weapons and SDI. At the most, a comprehensive package, and principled agreement will be reached on strategic nuclear weapons and the SDI issue. Now Reagan does not have much time left to do all this.

We also hope that The United States and the Soviet Union can reach an agreement of arms control, but it should not infringe on the interests of other countries.



Difficult Though the situation is, Reagan Still Has the Ability To Make Policy Decisions--by Xiao Ming [3469 3298], SHIJIE ZHISHI special contributor

I have some different views from Comrade Jin Junhui's. In my opinion there are possibilities for the United States and the Soviet Union to reach agreements on a number of questions, not only on medium-range missiles, but also on some other issues. It is true that Reagan's position has been weakened somewhat, but this does not mean that he can accomplish nothing. The key problem is how to look on his current difficulties.

The Weakening of Reagan's Position May Be Conducive To Reaching an Agreement Between the United States and the Soviet Union

Reagan's difficulties are mainly expressed by the following facts: First, the Irangate incident was the greatest blow for Reagan in his more than 30-year political career. the incident has not yet ended. If at the Congressional hearing, which is to be held in May, it is verified that he knew the details of the transfer of the money or the use of a certain sum of the money for the Republican Party in the election campaign, the matter may possibly become a second "Watergate incident." If that is the case, Reagan will certainly be unable to do anything significant. But things have not yet developed to that extent. The Democratic Party is now adopting a strategy of "delaying," attempting to throw Reagan into long-term passivity, and Reagan is trying his best to extricate himself from a difficult situation. He has already achieved some successes. Second, the opposition party controls Congress. We cannot underestimate the containing role of Congress on Reagan's international and domestic policies. In national affairs, just as was mentioned by Comrade Song Baoxian, Congress has twice repudiated Reagan's vetoes on the water purification bill and the highway construction bill, one in January and the other in April. This was a heavy blow at him. In international affairs Congress also plays a key role of containment on the allocation of funds for SDI and on the question of providing aid to the antigovernment forces in Nicaragua. now the 100th Congress has not yet carried out its agenda. Once it is carried out Reagan's proposals will also run counter to those of Congress' on a series of questions such as the trade bill, tax reductions, the budget, military expenditures, education, and agriculture. the trial of strength between Reagan and congress has just begun. Third, the current economic growth rate is not as high as that during Reagan's first term of office. This is the most troublesome matter for Reagan. It is quite possible that he will leave to his successor record-high trade and financial deficits, plus a \$2.0 trillion national debt. It is the first time that U.S. overseas investment has fallen behind that of Japan. Moreover, its competitiveness has obviously weakened. fourth, the Iceland meeting and the Irangate incident have a greatly damaged the international prestige of the United States. Its allies have less faith in it and its relations with Third World countries, especially some pro-American countries such as the moderate Arab countries in the Middle East, cannot be easily mended. Thus, Reagan has encountered great difficulties in both his international and domestic policies.

However, /on U.S. foreign policy, Reagan's weakened position may be even more conducive to reaching an agreement./ At present, Reagan still has not lost his ability to make policy decision. I feel that this is a key point. It is also one of the reasons why Gorbachev has agreed to separate medium-range missiles from SDI. Some Western personnel find it difficult to understand why Gorbachev is willing to give Reagan a hand when the latter is in a difficult situation rather than taking stronger measures to make him fall from power. The reason is that Gorbachev deems that Reagan still has the ability to make policy decision. It may be good for us to review some events before Gorbachev decided to separate the medium-range missile issue from SDI. When Kissinger, Vance, and other well-known personages went to the Soviet Union for a visit, Gorbachev tried to find out whether Reagan still had the ability to make policy decisions. Kissinger and Vance repeatedly explained that Reagan still had the ability to make policy decisions both in international and domestic affairs and he still enjoyed relatively high prestige. Although Congress may contain Reagan, it needs a two-thirds majority in order to repudiate the president's veto. Take the highway construction bill as an example. At that time Reagan won 334 votes. If he was able to win 1 more vote he would have been able to maintain the veto. from this we can see that /it is hard for Congress to resist the president if it only has a simple majority./

In the United States the High Tide of Conservative Forces Has Gone and the Middle-of-the road Line Has Gradually Become the Mainstream

Some people think that at present conservatism is still in the dominant position in the United States. I hold a slightly different view on this question. It is true that since Reagan came to power the conservative revolution, or the Reagan revolution, has been pushed to a new height. however, /since last year's mid-term election the mainstream of conservatism has begun to ebb. Particularly since the Irangate incident, conservatism has been on the decline./ At present, some well-known conservatives have left the Reagan administration one after another, holding that Reagan cannot fully represent their interests in the future. Many officials of the hawk faction, such as Perle of the Defense Department, have also realized the trend of the talks on medium-range missiles and have left the government. In the 30 march issue of NEWSWEEK, former White House Liaison Director Buchanan wrote a memorandum for the president. this can be regarded as a wail of the conservatives. he held that Reagan is following a middle-of-the-road line. In the next 2 years the conservatives will not completely abandon Reagan but they will not expect him to fully reflect their political intentions and ideas.

The Trend of Reagan's Policy in His "Third Term of Office" Is To Seek Dialogue and Compromise

What are Reagan's considerations on U.S.-USSR relations? Some people have called the Reagan administration after the Irangate incident and the White House reshuffle the "third term of office" for Reagan. in my opinion, in his first term of office Reagan was making efforts to regain strength and reestablish U.S. prestige. he adopted an overall hard policy toward the Soviet Union. at that time some people said that he was the only U.S.

president since the war who had to meet the Soviet leader. In his second term of office the strength of the United States had been enhanced and Reagan, who adopted a tactic of strength plus negotiations, held two meetings with Gorbachev. What he intended to do was to put pressure on the Soviet Union so that both sides could hold talks, but he did not intend to reach any agreements with the Soviet Union on the major issues of disarmament. He only wanted to force the Soviet Union to make a greater concession through the talks. That is why no agreements were ever reached at the two summit meetings in 1985 and 1986. Now, Reagan has begun his "third term of office." He declared that he would not follow the old path but would adopt some new ways. he personally reorganized the White House and the National Security Council. /The trend of Reagan's policy n his "third term of office" is to seek dialogue and compromise, including his attitude toward Congress. As to the Soviet Union, he prepared to have serious talks with the Soviet Union so that certain compromises can be reached./ On the question of medium-range missiles the United States also admits that the Soviet Union has made a large concession. To reach an agreement will be good, rather than be harmful, to the united States. Reagan's quick response to Gorbachev's proposal also shows that the United States is eager to reach an agreement. Although there are still some differences on several questions derived therefrom, especially on the question of verification, enormous progress has been made compared with the past. The question of short-range missiles is comparatively prominent, but judging from the changes in the U.S. attitude toward this question, it is also eager to reach an agreement on this issue. Motivated by this, Gorbachev prepares to pay a visit to the United States.

#### Other Strategical Considerations of the United States and the Soviet Union After the Medium-range Missile Issue

If an agreement is reached on the medium-range missile issue, will the United States and the Soviet Union reach further compromises on the strategic nuclear weapon and SDI issues? This will be decided by the intentions of both sides. in my opinion, the starting point of Gorbachev's decision on "separating" the medium-range missile issue from SDI was that the medium-range missile issue is not of great strategic significance to the Soviet Union. Of course, dismantling medium-range missiles can held disintegrate U.S.-European relations and reduce threats against the Soviet Union, /but the Soviet union has focused its attention on pushing forward the SDI talks with the medium-range missile agreement and striving for a concession from the U.S. side./ What Arbatov said revealed Gorbachev' real intention: A medium-range missile agreement itself cannot bring about a summit meeting. Judging from U.S. intentions, it would not be bad to bring about Gorbachev's visit to the United States with a medium-range missile agreement, but it is still not the ultimate target of the Reagan administration. /What Reagan has paid particular attention to is to greatly reduce the number of Soviet offensive strategic nuclear weapons./ However, the Soviet Union demands that this reduction should be linked with SDI. If Reagan wants to make great achievements on the question of offensive strategic nuclear weapons he will naturally make a compromise on the SDI issue. Now the ball is on the U.S. side.



So then, can Reagan make a major compromise on the SDI issue? We should view this question from two sides. Reagan is trying hard to push forward SDI so that it will become an accomplished fact not to be changed by his successors. On the other hand, /on the SDI issue there is still room for bargaining./ The main problem is that Reagan is faced with difficulties in Congress. At present, there are heated debates over the question of whether to interpret the 1972 U.S.-USSR Antiballistic Missile (ABM) Treaty in a broad sense or in a narrow sense. Congress has raised it to the higher plane of the Constitution. Nunn, chairman of the Senate Armed Services Committee, said that if Reagan insists on explaining ABM in a broad sense (that is, SDI can be carried out), he will face deep antagonism with Congress on the question of the Constitution. The Democratic Party has also threatened that Congress will greatly cut appropriations for SDI. this is undoubtedly an act undermining the plan. Therefore, Congress is a major pressure on Reagan. Besides, the development of SDI has also encountered great obstacles, such as technological problems concerning directional energy and laser weapons. It is hard to prove that a "space shield" imagined by Reagan on 23 March 1983 can really be established. If SDI is carried out earlier than planned, its quality will certainly be much lower.

The Soviet Union wants to exchange the reduction of offensive strategic nuclear weapons by a large margin for U.S. acceptance of some restrictions on SDI, but it is still not clear what the restrictions will actually be. However, since the restrictions will be limited, Reagan may possibly accept them. The Soviet Union is also changing its stand. Since the Iceland meeting the Soviet Union has been continuously readjusting its stand, from entirely forbidding SDI to allowing for research. Arbatov once said that a laboratory does not necessarily have four walls around it. During Kissinger's Soviet visit, the Soviet Union said that some outer space experiments might be carried out. Judging from the current development, the United States and the Soviet Union will carry out an arms race in outer space in the future. /Since they both want to monopolize the competition they will naturally work out some regulations for competition on the premise that the rate of development in this field is not affected., What will the trend be in the future? It is possible that the United States and the Soviet Union will reach a compromise on certain partial questions in the sphere of outer space weapons, either within or after Reagan's term of office. Of course, a compromise will be reached on the premise that the development of U.S. space arms is not affected.

#### Symptoms of Changes

At present the moderate faction is playing a leading role in the Reagan administration. the positions of Schultz, Carlucci, and Baker, who favor U.S.-USSR talks on arms control, have been strengthened. U.S. Foreign policy is tending to be more flexible. for example, the United States has established diplomatic relations with Mongolia, readjusted its Korea policy, agreed to hold a meeting on peace in there Middle East, met with the president of the African National Congress of south Africa, and readjusted its policies toward India and Eastern Europe. All this shows that it is not adopting a hard-line policy as it did in the past. Since Reagan is in a relatively weak

position and the moderate faction is running political affairs, the opinions of the West European allies have become more acceptable to the United States. Therefore, there will be some changes in the Reagan administration's foreign policy. In its relations with the Soviet Union there are many debates within the United States over the Soviet reform. Some people, represented by Vance, hold that the United States should make positive efforts to make the Soviet reform develop toward an orientation of being favorable to the United States and to the West. Some people, represented by Kissinger, hold that although the Soviet union is carrying out reform within the country, its foreign policy of expansion will not change. The United States should continue to watch it. Some other people, who belong to the hardliners, hold that the essence of Soviet reform is to enhance IOS rule, and the United States should continue to adopt its existing policy of putting pressure on the Soviet Union, not allowing it to have a breathing spell. /At present, the Reagan administration has continued to put pressure on the Soviet Union, but at the same time, has paid attention to dialogue, trying to reach a compromise with the Soviet Union that is more favorable to the United States./

The Geneva Summit Was a Turning Point in U.S.-USSR Relations--by Song Yimin  
[1345 0110 2404] of the Chinese Institute International Studies

There Will Be No Decisive Battle in this Century

Judging from the general background, /I think the United States and the Soviet Union will be in a strategic stalemate until 2000./ In the terms used by the 27th CPSU National Congress, it means that there will neither be the danger of war nor the emergence of a revolutionary situation. The United States did not say it in the same way, but all its scientific and technological development plans (including SDI) have been worked out for long-term purposes. At present, the Soviet Union and the United States are concentrating their main strength on economic, scientific and technological development and enhancing their comprehensive national strength. /If there will be a decisive battle between the two countries it will happen in the next century. In the remaining years of this century the main task for both of them is to prepare and accumulate strength. Under these circumstances many new characteristics will emerge in their contention./

Both the Soviet Union and the United States have stressed economic affairs in their contention and have even made their contest of social systems concentrate on economic affairs. They are both advancing in economic development and scientific and technological development. All this has brought about great changes in international relations as well as in the political and economic life of various countries. The new technical revolution has brought about changes in the industrial structure and the methods of enterprise administration. In developed countries the scope of state interference has been reduced and management methods have become more flexible. When they adopt a new policy of liberalization in economic affairs their political affairs usually tend to become more and more conservative. The conservative ideological trend is still there.

Socialist countries have also realized that a planned economy should be linked with market regulation and they are reforming their political structures. In international relations the interdependent relationship between various countries has been strengthened and their cooperation in the science and technology fields has been greatly promoted. Although Western Europe and Japan also oppose SDI, they want to study it for fear that they may lag behind. Japan has worked out a biogenetics research plan and Western Europe also wants to join it. At the same time socialist countries have also adopted opening up policies.

/Since the Soviet Union and the United States are in a stage of strategic staterate their relations will not be seriously intensified. Thus, there will not be an urgent situation requiring them to reach a substantial agreement./ However, when their relations are relatively relaxed they may reach some agreements to regulate their competition. It might be a daring opinion to say that in the next more than 10 years there will be more peaceful coexistence and peaceful competition in international affairs.

U.S.-USSR relations are not as rigid as they were in the first 5 years of the 1980's. In my opinion the Geneva meeting was a turning point. Since then U.S.-USSR relations have entered a stage of dialogue which is entirely different from the extremely intensified situation at the beginning of the 1980's. Although the two countries have not yet reached any agreements since the meeting and their relations have sometimes intensified, we can see that the tension has been somewhat restricted. A present many dialogues between them have actually been the results of the Geneva meeting. The significance of the Iceland meeting cannot be underestimated either. Although both sides reached no agreement, Reagan and Gorbachev discussed many substantial issues. Some views and ideas of both sides expressed at that meeting still influence their arms control talks today. I agree with what some comrades have said, /under the condition that their fundamental interests are not affected, the Soviet Union and the United States may reach certain agreements and the atmosphere will also be relaxed to a certain extent./

Both the United states and the Soviet Union Need Relaxation

There are two points that merit our attention.

First, in the eyes of the West, the Soviet threat has been greatly reduced. This is a new and very import change. Although Gorbachev has said more than he has done since he came to power, what he has said has produced effects, making many people in the West believe that he wants to concentrate his strength on the development of the economy and on adopting some Western methods in administration. Western countries also believe that Gorbachev will adopt an open policy, especially on the question of "human rights." In the past the Soviet Union has always sealed off all matters concerning this stating that they were their internal affairs not to be discussed by others. But after this question was raised at the Geneva meeting the Soviet Union made a concession. /But all this was just for show for the West./ For example, during Mrs Thatcher's recent visit to the Soviet Union she had a chance to meet with Sakharov and Begun. This was a matter of the same nature.



/In foreign affairs it seems that the Soviet Union will continue its current inactive attitude into the next century./ In the military affairs it has proposed some new strategic ideas. Of course we still have to wait and see whether it is satisfied with "sufficient nuclear weapons" because it will never give up the strategic balance with the United States. On the question of disarmament it has adopted a positive attitude, attempting to reach an agreement with The United States (on the premise that its fundamental interests are not harmed), and on some concrete issues it has even gone along with the proposals of the United States and the West. Because of the above-mentioned reasons Western countries believe that the Soviet threat is not as great as it was before, although they still have not changed their view that the Soviet union is the main enemy. Thus, it has become more difficult for Reagan to put pressure on the Soviet Union is the main enemy. Thus, it has become more difficult for Reagan to put pressure on the Soviet Union, insist on not reaching an agreement with it, or to unite with U.S. allies to do so.

Second, the transient economic recovery of the United States, which appeared after Reagan assumed power, has reached its end. The leading position of the U.S. economy in the Western world has been weakened and become more and more unreliable. Trade conflicts between the United States as one side, and Japan and Western Europe at the other, have sharpened and both the U.S. high-tech trade. /The United States can feel its economic strength being challenged and its position as a military guardian and a representative of the security and interests of the West has been shaken./ The United States will be faced with more and more difficulties and there will be less possibilities for its economy to recover again. At the same time it also needs to put more strength on regaining its economic competitiveness.

Under these circumstances the United States will be unable to stubbornly adhere to its hard line toward the Soviet Union. There are great possibilities for both sides to reach certain partial agreements under the condition that they need not make great efforts. For example, they can establish more reliable trust measure and reach certain agreements on verification and adopt more flexible policies on matters concerning medium-range missiles and biochemical weapons. Since the quality of arms has improved it is also possible for them to reduce the number of offensive strategic weapons and obsolete some outdated weapons and their carriers.

On the regional question, at present neither of them is able to annex the spheres of influence of the other side. Thus it is quite possible for them to work out a code of conduct so that they will not be involved in dangerous cases. As a matter of fact, some secret agreements were already reached by both sides on this question in their past dialogues. For example, the Soviet Union did not strongly react to the U.S. air raid on Libya, and on the question of the free passage of oil tankers in the Persian Gulf both sides also had a secret agreement.

There will also be new developments in U.S.-USSR trade relations. The United States has relaxed some restrictions on the Soviet Union. It had to do this because Western Europe and Japan had already done the same. It will continue to follow the pace of the latter on this question in the future.

## The Relaxation of Relations Between the United States and the Soviet Union Is Restricted by Many Factors

While noticing the trend of relaxation in U.S.-USSR relations I think we must also pay attention to the fact that U.S.-USSR relations are restricted and affected by more and more factors. For example, Western Europe has demanded that before the United States and the Soviet Union reach any agreement they should discuss the matter with it. After the Iceland meeting Western Europe felt that the United States was not as reliable as it had been in the past. Western Europe is directly containing the United States in this way. On the other hand, the development of its own alliance and self-improvement has formed another containing factor. Here are two examples.

First, by the year 1992 the EEC will become a market (although it is still unknown what changes will actually take place).

Second, the pace of defense cooperation among Western European countries is accelerating, especially between France, the United Kingdom, and West Germany, which are more enthusiastic in this respect. Japan, Australian, and New Zealand have also increased their military expenditures.

Moreover, in foreign affairs West European countries are speaking in the same tone on more and more occasions. Mrs Thatcher's recent visit to the Soviet Union was actually carried out in the capacity of speaker of Western Europe. Before paying the visit she discussed the matter with France and West Germany. This was a result of the new changes in U.S.-USSR relations and it in turn produced some effects on U.S.-USSR relations. It helped promote these relations and also brought about other complicated factors.

The Readjustment of Soviet Foreign Policy Is Not a Strategic Readjustment--by Luo Yi [3157 0122], SHIJIE ZHISHI special contributor

At present there are different views in our country on the question of whether the current readjustment in Soviet foreign policy is a strategic or a tactical readjustment. In my opinion there are not sufficient reasons to say that it is a strategic readjustment.

The domestic reform of the Soviet Union has just begun. Since it has encountered great obstructions it is still very difficult to say how far it will go. The livelihood of the common people in the Soviet Union is not bad, though not very good. They may not think that it is crucial to carry out further reforms merely in order to add more rubles to their pockets. We must not neglect this kind of obstruction which is caused by inertia. /Gorbachev has again and again emphasized the necessity and irreversibility of reform. This shows that reform has encountered great obstruction./

Since there are great obstructions in the domestic reform it is impossible to make bold and resolute readjustments in foreign policy. In fact, Gorbachev wants to maintain a balance with the United States and to protect Soviet spheres of influence in international affairs. For example, after his



Asia-Pacific trip Shevardnadze's remarks on the Cambodian issue changed a great deal. In the Soviet-Vietnamese joint communique the Soviet Union completely sides with Vietnam. Can the Soviet Union easily give up the hard-won Cam Ranh Bay? Gorbachev has repeatedly emphasized concession and compromise in foreign affairs but what does he really mean? At a recent meeting of journalists he mentioned the "Brest Peace Treaty" which means that for long-term interests the Soviet Union can make certain concessions and compromises so that it can have a breathing spell. Things lost today can be taken back another day. He also cited an example, saying that if you meet a robber, you had better hand over your money so that the robber may be brought to justice in the future. Is the meaning of this metaphor not clear enough? Judging from current practice, withdrawing several regiments from Afghanistan and withdrawing a division from Mongolia were nothing attractive. /Even under the current situation of the so-called drawing back, the Soviet Union still moves ahead wherever it can go and never refuses anyone who wants to draw close to it./ There are numerous examples of this in real practice. Take U.S.-USSR relations for an example. The passive attitude taken by the Soviet Union on some occasions does not mean that it has made great concession. The concession on the medium-range missile issue does not greatly affect its strategy. On the issue of the United States breaking the limitations set by the SALT II it has adopted an attitude of restraint because it thinks that what the United States has done by adding one more B-52 strategic bomber from 130 to 131 is nothing serious. What is more, the Soviet Union thinks that the United States may have done this on purpose, trying to lure the Soviet Union to break the limitations as well so that they could come into an arms race in which both sides would take turns raising the gambling stakes. The Soviet Union will certainly not be taken in. Therefore, the concessions made by the Soviet Union are not an expression of weakness on the Soviet side. /In a word, judging from the current situation there are still not any important changes taking place in the Soviet foreign policy./ As for future changes, we will still have to wait and see.

/Of course, there have also been changes in a generally unchanged situation, especially the changes in tactics./ The Soviet Union is quite successful in creating an atmosphere of relaxation and in winning support from the media. Now many Western countries believe that the threat from the Soviet Union has been greatly reduced. This means a great success for the Soviet Union. Its new ideas sound very nice but very few of them have ever been put into effect. It has put forward some proposals on disarmament which sound really good, such as the proposal on eliminating all nuclear weapons and withdrawing all Soviet troops from abroad and the package proposal at the Iceland meeting. But it is unlikely that all of them will be put into effect. They were merely for show.

The Soviet Union has also been doing relatively well in changing its passive position into an active position on some questions, such as on the human right and verification issues which have been firmly seized by the West. Now the Soviet Union says that you can come to verify my figures but I also want to verify yours, now it is the West's turn and they refuse to accept the proposal because the U.S. medium-range missiles are deployed in West European countries which are not to be verified by the Soviet Union. On the question human

rights the Soviet union has set Sakharov free and Sakharov has made many remarks praising Gorbachev and his reform. Western countries have denounced the Soviet Union for its lack of freedom and equality but Gorbachev has answered back sarcastically: How many people are homeless and how many people have lost their jobs in the United States? What kind of freedom and equality do these people have? He has thus used attack as a means of defense.

Soviet tactics have also become more flexible. On the medium-range missile issue the Soviet union has sometimes linked it with and sometimes separated it from the SDI issue. It has changed its past tactics toward East European countries. At the same time it has had more contacts with Western countries. It has made use of all opportunities to propagate the Soviet reform and publicize its open policy, democracy, and new ideas. Achievements have been made in all these areas. Some Western leaders are also favor dialogue with the Soviet Union. In the future it will be easier for the Soviet union to promote economic and trade relations with the Western countries and this will greatly benefit it.

How do we see the future development of the Soviet foreign policy? A number of people believe that the Soviet Union will never let the tragedy of sending troops to Afghanistan be repeated in the future because the international environment has changed, and it does not allow for the conquering of any other country by force. the arms race will probably be maintained at a country by force. The arms race will probably be maintained at a lower level. It is no use to have more nuclear weapons. The Soviet Union says they will not go into the race to destroy the other side 40 or 50 times. They only want to have the strength to destroy it once or twice and that would be enough for them. It is unavoidable that the arms race will be developed and carried out in the outer space because both the United States and the Soviet Union need to do this and also because the possibilities exist in the technological field. In the outer space arms race the Soviet Union may not compete with the United States on an equal basis. It may adopt some economic and effective methods to cope with the United States. Both economic and foreign affairs will be more realistic and practical. The practice of emphasizing ideology will be reduced.

There Have Been Changes in Soviet Foreign Policy--by Li Zhongcheng [2621 1813 62134] of the Institute of Contemporary International Relations

I have some different views. I feel there have been great changes in Soviet foreign policy.

#### The So-called New Political Ideas

These changes are first or mainly expressed by the ideas concerning policy, or the "new political ideas" as was stated by the Soviets. Judging from the expositions of the Soviet leaders and some Soviet specialists and scholars, I think there are mainly the following three points:

/1. The changes in the "two poles" mentality./ In the past, "antagonism" between capitalism and socialism, the two major systems, was emphasized.

But now emphasis is laid on the "unity of the world" and "interdependence," holding that each country has its "legitimate rights and interests" and that it is necessary to seek a "sphere where various countries have the same interests." In the past, the decisive role of the United States and the Soviet Union in handling international affairs was over emphasized, but now it is admitted that they "cannot command the world."

/2. The changes in the concept of war and security./ It is now held that in the nuclear era "the old concept that war is a means to attain a political purpose is already out-of-date." There will be no winner not only in a nuclear war but also in the arms race. It is emphasized that security can be ensured "only by political means."

/3. "Flexibility" and "compromise" are emphasized./ It is held that "no success can be achieved" by adhering to "rigid" and "inflexible" stands and it is emphasized that when making policy decisions "a high degree of flexibility" and "wise compromise" are needed.

#### There Have Also Been Changes in Tactics

The Soviet Union has also made changes in its policies and tactics. The main changes are as follows:

1. In the arms race it does not strive for a military superiority over the United States as it did in the past but is, instead, seeking a general balance at a lower level.
2. On regional issues it has done its best to reduce military and ideological color and has made use of the mistakes of the United States on more occasions in order to protect and expand its influence through political and economic measures.
3. While making great efforts to relax its relations with the United States, its main adversary, it has attached greater importance to the roles of Western Europe and the Asia-Pacific region, especially the roles of China and Japan.
4. It has appeared more willing to treat its East European allies as equals. This has been expressed by its attitude toward the economic reforms and international relations of the East European countries and in handling the domestic affairs of the "big family."
5. It has attached greater importance to foreign economic relations. It has recognized that the EEC is an independent "political unit," demanding that the economic cooperation between CEMA and the EEC be strengthened. It has showed willingness to participate in a meeting of the "Pacific Economic Community" and has actively applied for memberships in the World Bank, the international Monetary Fund, and the General Agreement on Tariffs and Trade. It has enhanced its cooperation with Western Europe and Japan in the science and technological and economic fields and within the country has established joint-venture enterprises and specialized bases for exports. It has also proposed to make Vladivostok "open to foreigners" so that it can become a "window widely open to the East."



## Two Points of Appraisal of the Readjustment

First, generally speaking, in its foreign policy in the past the Soviet Union emphasized "struggles" but now emphasizes "talks." The starting point is to bring its foreign policy into line with the orbit of "serving the internal strategy of accelerating development." The target it is pursuing is to create a peaceful international environment for invigorating the economy and it will emphasize on more and more occasions the use of dialogues, talks, and other political and economic means to realize its strategic goals.

Second, the readjustment which has just begun will be continued. The Soviet Union expects to promote its domestic reform through readjusting its foreign policy. However, we must also see that /the readjustment of Soviet foreign policy is a complicated and tortuous course and there are many difficulties both internationally and domestically./ Internationally, how to deal with the U.S. challenge is a major and difficult problem. The United States is determined to gain military superiority over the Soviet Union and "push back" its influence in the Third World. Domestically, there are still stubborn ideas of great-nation chauvinism and national egoism in the Soviet Union. These are all obstacles in readjusting Soviet foreign policy.

## Protecting the Position of a Superpower--by Sobng Yimin [1345 0110 2404]

What on earth is Gorbachev's policy? What are the scope and limits of his reform? In my opinion the domestic reform the Soviet Union is carrying out is quite profound reform. But what is its motivating power? It can be said that China's reform was initiated after the people were awakened by the great cultural revolution. However, in the Soviet Union the people do not feel that reform is absolutely necessary in their country because their livelihood is rather good. I think the main motivating force in the Soviet reform has come from the Soviet contention with the United States for hegemony--if it cannot handle its domestic affairs well it will be unable to maintain its position as a superpower. Gorbachev has repeatedly warned his people that the Soviet Union has lagged behind and has various shortcomings but the capitalist system still has vitality. Therefore, it needs to catchup with the capitalist world. This is the method he has used to arouse the sense of pride of the Russian nation and to push forward the reform. However, if it goes on contending with the United States it will always have to spend much strength on arms expansion and maintain a high degree of centralization. This will be contradictory to the reform. Therefore, it is a very difficult problem for the Soviet Union.

## The Soviet Reform Is Very Complicated--by Zi Zhongjun [6327 0022 4596] of the Institute of North America

There are different views both at home and abroad on the Soviet reform. Some have paid more attention to its positiveness, while some have emphasized its difficulties. But most of them believe that the Soviet reform is a long-term and complicated reform and that there are many obstacles. In this respect I want to raise several questions from another angle.

There are really many new changes in the Soviet Union, but most of them have been reflected by the remarks of the Soviet leader and his mentality. Having realized that reform is absolutely necessary for the Soviet Union, Gorbachev hopes that reform can be carried out. But on the other hand, /since the Soviet Union is a large country I am afraid the matter of reform cannot entirely be determined by the will of a leader. The people's state of mind is more important./ Generally speaking, when the reform was just starting people usually welcomed the new ideas. Intellectuals were particularly fond of reform. They wrote articles and made speeches to advocate reform. Therefore, we could see and hear more about the reform from their articles and speeches. However, when the reform was carried out in depth, it naturally touched the vested interests of certain social strata. I do not refer to the vested interests. Foreigners often judge the Soviet reform by the criterion of who, the conservatives or the reformists, has the upper hand in the power struggle. I think appraising the reform itself is more important than appraising any power struggle. The real obstacles for reform usually exist among a sector of the masses. Although this sounds like the "theory of the masses being backward" I feel that the real problem does exist there. Just look at us. How difficult it is for us to break with the phenomenon of everybody eating from the same big pot? The Soviet Union has a history of 70 years in this respect, and it is more difficult for it to break with the phenomenon of everybody eating from the same big pot. Moreover, since the Soviet Union has not experienced a cultural revolution like ours and does not have the same bitter experiences, it is not as eager to carry out reform. What is the state of mind of the Soviet people? Since I have not studied this I think it is better not to say anything about it.

For the economic reforms in socialist countries there are still not any mature experiences to follow. Some people think that the Soviet union has some systematic theories for economic reform. But in my opinion, without mature experiences it is impossible to have mature theories. On this question I do not believe that theory can go first. As to how far the Soviet reform will go, we still have to wait and see.

In readjusting foreign policy there is also the question of what the people's state of mind can bear. The people of every country should have a spiritual prop. This is a kind of invisible strength. For many years, the Soviet Union has been in confrontation with the United States and has been taking world affairs as its own duties. This has also become the state of mind of its people. They feel that under no circumstances can their country be weaker than the United States. Take military strength as an example. For many years the Soviet Union has been trying to gain superiority over the United States or at least to maintain a basic balance with the United States. Now there is a new theory, the theory of "sufficient nuclear weapons," which means that provided I have sufficient nuclear weapons capable of destroying the other side, I do not care how many weapons the other side has. As long as I have the capability to destroy the other side I can just close my doors and carry out economic construction. Does the Soviet Union really want to do this? Even if it really wants to do, can the people bear the psychological pressure that will emerge?

Of course, there are also some advantageous conditions for the Soviet reform. For example, their education has been made relatively universal, their general cultural level is relatively high, their economy has been better developed, and their cadres have a higher quality and educational level. Even so, there are still many unpredictable factors affecting the Soviet reform.

/As far as the readjustment of Soviet foreign policy is concerned, since it is related to domestic reform, if the latter encounters great obstructions it will be difficult for the Soviet Union to move back in international affairs./ In its world-wide contention with the United States it is very difficult for it to retreat. these practical problems cannot be solved merely by talking about theories.

Moreover, the Soviet reform also has an impact on Eastern Europe, and in turn, the reform in Eastern Europe also comprises the reform in the Soviet Union.

#### Several Americans' Views

There are also different opinions among the American people on the Soviet reform. At present most people still have reservations about the Soviet reform. Some people of the liberal faction welcome the reform, believing that opening up in all forms is a good thing because it means that control is no longer as strict and that Western ideology may find a passage into the country which in turn will bring about changes in Soviet society. Other people have not faith in the Soviet reform. They think that the Soviet Union is not attempting to make a fundamental change in its structure but is trying to overcome bureaucratism under the current system and to enhance its economic strength so that it can continue to contend with the United States. This kind of reform should not be encouraged. There is also the view of the extreme-conservative faction. It contends that whether the Soviet reform is successful or not, it is favorable to the United States. The logic of people holding this view is that if the Soviet Union achieves successes in its reform, it will naturally change to capitalism. They use "free market" instead of "capitalism." When the entire economy becomes a free market the Soviet system will also be changed. This will naturally be favorable to the United States. However, if the Soviets do not succeed in their reform, their strength will be greatly weakened, and this is also favorable to the United States. Of course, most people in the United states do not look at this problem in such a simple way. what is the opinion of the U.S. official quarters? I think they mainly want to make the Soviet Union pay a higher price for its reform. they want to reach an agreement with the Soviet Union only when the latter has paid a higher price. As early as in his first term of office Reagan wanted to wear down the Soviet Union through a highly expensive arms race. But in the development of armaments of Soviet Union did not have to quarrel over this question in parliament like the United States, though it also had some difficulties. Moreover, the United States also encountered many difficulties. Thus, it became necessary for both sides to relax their arms race for a time. However, the United States did not want to let the Soviet Union off lightly and wanted it to make more concessions. In the eyes of the United States, the current concessions the Soviet Union has



made are not real concessions. Therefore, it will continue to force the Soviet Union to make concessions. This has made things more difficult for the Soviet union.

We Should Not Place Excessively High Hopes on the Prospects for U.S.-USSR Relations--by Peng Di [1756 6611] of XINHUA

The current situation shows that changes have taken place in the policies of both the United States and the Soviet Union. There have been considerably great changes in the United States. It has become more flexible and clever in its tactics. But the Soviet union has made greater changes in its remarks. However, in foreign affairs its changes are not as great as those of the United States.

#### Two Fundamental Reasons for the Changes

There are both objective and subjective factors which caused these changes. Of the many changes in objective conditions two are fundamental: 1) The change of the bipolar system into a multipolar system, which has a tremendous influence on the two superpowers, the United states and the Soviet Union./ At present, world affairs cannot be determined by the two superpowers as they were in the past. 2) Since arms and technology have been highly developed today, they cannot be controlled by anyone country. Once they are out of control there will be enormous disasters./

Of course, there have also been other recent cases, such as the political and economic difficulties both countries have encountered, the trade contradictions between the United States and Japan, and the decline in Reagan's prestige due to a number of incidents. Moreover, the Soviet Union has adopted a strategy of acceleration and needs a peaceful environment.

All these factors, the factors of recent cases and the fundamental factors, have forced them to make some readjustments in their policies. Of course, /at present, in the course of developing from a bipolar system to a multipolar system the bipolar one is still prominent. The United States and the Soviet Union still have a great influence on global issues. Therefore, both of them have taken the policy of the other side as the focal points of their readjustments./ These readjustments are relatively complicated. They cannot be explained in an oversimplified way. For example, the medium-range missile issue looks simple, but in fact, it concerns the overall situation of the two countries and involves the allies of both sides. Now they are holding talks on this issue and are trying to reach an agreement. This only shows that they are temporarily handling this matter as a separate one. But both of them must have also considered what influence an agreement could have on the future.

Judging from recent developments, it seems that the Soviet Union has made certain concessions on the medium-range missile issue. The Soviet Union has more medium-range missiles than the United States; that is why it has reduced more. However, judging from a long-term point of view, this is unfavorable to the United States. It has thrown the United States into endless quarrels

with its allies. It is sure that the independence of the U.S. West European allies will be further strengthened. Now Western Europe is already considering how to separate from the United States to a certain extent in its joint defense. All this seems to be more favorable to the Soviet Union.

The readjustments of the United States and the Soviet Union were initiated by the European issue and the arms control issue. This is by no means an accidental phenomenon. It shows that Europe is still the heart of both. Compared to other issues, they may have more common ground on the European issue and the arms control issue and there have been some relaxations in these areas. How will these relaxations be further enhanced? I think we still have to wait and see.

#### Other Factors Restraining Change

What I have mentioned is only one aspect of things. In another area some factors to exist which are restraining U.S. and Soviet readjustments. These factors include at least the following: 1) Since the U.S. and Soviet positions as superpowers were established in a long historical course it is unlikely that these positions can be easily changed though one or two agreements. They can be changed only in a rather long historical course./ Being superpowers, they will naturally protect their positions of strength. If either of the two sides has made excessive concessions it will lose its position as a superpower and the balance will also be lost. Moreover, since they are superpowers they will not only have to protect their national interests but also have to contend for global strategic interests. No matter who the president is and who the general secretary is, they all have to consider these problems. The state of mind and ideology of the superpower, which were established in the long course of history, cannot be changed in a short period of time and cannot be changed by any individual.

/2) Both the United States and the Soviet Union are taking the other side as the main enemy. this is also a long history. In my view it is also very difficult to change this situation./ I am not quite clear about what the Soviet people are thinking of, but judging from the ideas of the American people, I feel that most American people are incompatible with the Soviet Union not only in ideology and theory but also in personal feelings. The long-standing situation that both sides do not have any faith in each other and are rather estranged from each other cannot be easily changed merely by reaching several agreements. I have been in the United States for several years. I find that there are anti-Soviet television programs every day. In a recent TV drama, the Soviet Union was still the imaginary enemy. This idea is rather deeply rooted in the United States.

Taking various factors into overall consideration we find that due to the changes in the objective situation, both the United States and the Soviet Union really want to carry out readjustments and reforms and to relax relations. However, /I am afraid that even several generations of people will still be unable to resolve their long-term antagonism which is a result of historical and geopolitical circumstances and their antagonism concerning



their global interest./ I feel that /it is unimaginable and impossible to expect them to reach important agreements in the near future or to make fundamental changes in their strategies./ As to the prospects of U.S.-USSR relations, I want to quote from Western reporters: We can be cautiously optimistic about the future. This is because the United States and the Soviet Union seem to be closer to each other on some questions and they do want to reach some agreements. However, we should not place excessively high hopes on them. They can only solve some problems within certain limits.

#### Both Sides Are Unable To Stop Even Though They Want To

The Soviet Union spoke plausibly and at length when denouncing the United States for supporting the anti-government forces in Nicaragua, saying that a country cannot interfere in the internal affairs of another country and cannot change the nature of another country by military means. However, what it has done is exactly the same as the United States. On this question it has a double standard. Of course, even to this day people still do not know how Gorbachev will do in the next step, but we all hope that he will continue to advance. Anyhow, we still do not see much sincerity in him on the solution to the regional hot spots issue. For example, how can we say that the Cambodian issue is a problem of a third country? It seems that it has nothing to do with him and that he can do nothing at all to help solve it. The Soviet Union is providing aid to Vietnam at an average of \$2 billion a year. How can it say that it has nothing to do with the issue? It is entirely possible for the Soviet Union to play some role. However, this may greatly affect its own interests. Originally the Soviet Union did not have a chance to meddle in the affairs of Asia. Now it has made several steps forward in this respect through Vietnam. It will never give up its sphere of influence in Indochina. It believes that once its relations with Vietnam deteriorate, it may lose a great deal. Being a superpower, the Soviet Union must be taking these questions into consideration.

There is also another problem. If either of the two powers makes a concession, the other side will push its way in. For this reason, neither of them is willing to make a concession. Although under the pressure of circumstances the Soviet Union has withdrawn some troops from Afghanistan and made some remarks on the Southeast Asian issue, it is by no means sincere and earnest. It does not really want to pull out. Similarly, the United States is also afraid of losing its positions in the Philippines, believing that the loss of this position will be disastrous. The Soviet military base in Cam Ranh Bay and the U.S. military base in the Philippines are diametrically opposed to each other. Anyone who makes a concession will suffer strategic losses. Of course, by saying this we still do not mean to rule out the possibility that they may reach agreements on certain questions.

Both the United States and the Soviet Union Are Unable To Alter the Strategic Balance--By Zhou Jirong [0719 4764 2837] of the Institute of contemporary International Relations

#### A Point for Contact on the Arms Control Talks

I agree with what Comrade Peng Di said. Both the United States and the Soviet Union are readjusting their foreign policies in light of the changes in the

international and their internal situations. /What I want to emphasize is that they are readjusting some of their tactics and methods and that there are still no signs that they are making readjustments in their strategies./ I believe that the United States and the Soviet Union can reach an agreement on European medium-range missiles. The question is what they will do next. It is possible that they will continue to hold talks on short-range missiles and conventional arms. To express its sincerity the Soviet Union also said that it will withdraw some troops from Czechoslovakia and the German Democratic Republic. At present, on the question of linking short-range missiles with conventional arms, the Soviet Union might agree to add some remarks on this question to the agreement on medium-range missiles. I think both sides will thus find a point for their contract, and Europe will also agree to this.

As for offensive strategic nuclear weapons, the United States and Soviet Union have agreed in principle to reduce them by 50 percent. The purpose of the United States is to weaken the Soviet ground-based intercontinental missiles, and the purpose of the Soviet Union is to force the United States to abolish or delay SDI. Whether the United States will delay SDI is determined by objective conditions. /The United States is facing great difficulties in carrying out SDI according to the original plan. It is possible that it will make some concessions on the rate of development and the scale of SDI in exchange for greater concessions from the Soviet Union on the question of strategic nuclear weapons. Perhaps this will be the point for their contact in future negotiations./ Will there only be one point for contact? this is still not clear at present and it will be determined by future developments.

#### Neither Will Draw Back on the Regional Question

On the regional question i think it is difficult to reach any agreement. Last year some people said that the Soviet Union wanted to stop aiding Central America and stop interfering in Central American affairs in exchange for U.S. concessions on the Afghanistan issue. U.S. officials said that it was true but the United States would not go along because it would not let the Soviet Union totally control Afghanistan. On this question the Soviet Union will not make a fundamental concession either.

Some comrades think that the Soviet Union will draw back from the Third World. I think it will only change its tactics and methods. It will not draw back. /The Soviet Union will not give up the spheres of influence it has gained and will certainly make use of new opportunities, even including the opportunity in Central America./

Some comrades think that it is necessary to draw a line of demarcation between the establishment of normal diplomatic relations between the Soviet Union and Third World countries and Soviet expansion and contention. Is the establishment of these relations detrimental to the United States? For example, when the Soviet Union enters the South Pacific region, although it does not necessarily establish military bases there, since its trawlers entering this area are equipped with reconnaissance devices, they are greatly detrimental to the U.S. bases in the Philippines. The United States knows

very well about this. That is why it has stepped up its efforts to relax its relations with South Pacific countries and has provided them with more aid. The Soviet Union has improved its relations with China and Japan. The United States also feels that this is unfavorable to it. On the U.S. side, it has not changed its push-back policy, but its tactics and methods have changed. For example, when it finds that a certain autocratic power cannot subsist it will adopt peaceful measures to change the ruler in order to protect its influence there. In Third World countries the United States even makes certain concessions in accordance with demands of relevant countries to protect its spheres of influence.

The United States and the Soviet Union are still contending with each other. The medium-range missile issue is not merely an arms control issue. The Soviet Union has made much headway in disintegrating the relationship between the United States and its West European allies through the medium-range missile issue. Therefore, in the final analysis, talking over the medium-range missile issue is also a kind of contention.

When we talk about contention, there is also a question of who is the offensive side and who is the defensive side. In my opinion, in the overall situation, in strategy the United States has been taking the offensive for a rather long period of time. It has made great efforts to strive for military and economic superiority over the Soviet Union and for more spheres of influence through economic competition, the arms race, and a limited push-back policy.

As for the Soviet Union, it needs a peaceful international environment and a breathing spell now to implement its strategy of accelerating development. For this reason, it has to reach agreements with the United States and improve relations with other countries. However I still doubt whether it can realize its goal under the current objective conditions because the whole matter is not merely decided by the Soviet Union but is also decided by the United States and its allies.

But on some concrete issues, such as the regional issue and the arms control issue, we cannot say that the United States is taking the offensive and the Soviet Union the defensive. On the arms control issue the Soviet Union has launched a powerful and peaceful offensive, but the United States is in a unfavorable position. On the regional issue the Soviet offensive in the Asia-Pacific region has been strengthened. Gorbachev's speech in Vladivostok shows that the Soviet Union wants to improve its relations with the ASEAN countries. It has thus opened the door to the East in the political, economic, and diplomatic fields. But it has not given up its military deployment there.

#### The Nature Of the U.S.-USSR Contention Will Not Change

The United States and the Soviet Union have each taken the other side as the main enemy for 40 years. The 1987 national security strategy of the United States clearly points out that the main threats to U.S. national security and national interests come from the world-wide challenge of the Soviet Union. Moscow is trying to realize a change in the existing international situation and seek global hegemony.

The resolution adopted by the 27th CPSU National Congress and Gorbachev's speech show that the main target of Soviet diplomacy in the United States. gorbachev said that the United States is the most aggressive and adventurous henchman of militarism, and the new CPSU Constitution denounces the United States as the pillar of international reactionaries. It also says that the United States is seeking global hegemony.

Therefore, the nature of the world wide contention between the United States and the Soviet Union will never change.

Some people have asked: Will the United States change after the Reagan administration?

In my opinion, no mater who will be in power in the future, /the U.S. position in the world will be weakened. Therefore, it is possible that Reagan's strategy against the Soviet Union may be partially changed. But the basic strategy and intention of the United States will not changed./

Some people have said that since the Irangate incident some heads of the extreme conservative faction have fallen out of power, and in the mid-term election, moderate conservatives have gained the upper hand. What does this mean? In my opinion the faction advocating relaxation has still not yet come to power.

Americans think that the conservative ideological trend will continue for 40 more years, counting from Reagan's time. It is not declining but has just begun. It is just different from the past in its development; it is not ebbing.

Thus, no matter who is in power the Republican Party or the Democratic Party, the concessions the United States will make to the Soviet Union will be fairly limited.

At present, the Soviet Union has readjusted its foreign policy in order to seek relaxation. But I still cannot see any negation of its past foreign policy in this readjustment. We still have to see what kind of readjustment it will make in the future.

The Upper Limit for Tension, the Lower Limit for Relaxation

It seems that there is a law governing U.S.-USSR relations, that is, sometimes tense, sometimes relaxed, and developing along a curved line. When there is a tense situation both sides hold talks to lower the heat and reach an agreement, and after that another tense situation appears. If we say there is an upper limit for tension, that is, not to evoke wars, there is a lower limit for relaxation. Even during the period of relaxation in the 1970's, the contention between both sides was still very acute.

/The current disarmament talks cannot be isolated either. it is a political struggle between the United States and the Soviet Union./ Americans also say that U.S.-USSR talks are international political affairs.



In my opinion, no matter what kind of agreement is reached, the fundamental nature of the United States and the Soviet Union cannot be changed. Both countries want to weaken the other side or to win a temporary breathing spell through talks.

The Soviet Union will make some achievements in its reform. If we make an intermediate appraisal, its annual economic growth rate will reach more than 4 percent. But for the United States, in its best years its economic growth rate was about 3 percent, and generally has been slightly more than 2 percent. Thus, the gap between the two countries in their economic strength will be narrowed. But this will mainly happen in the fields of the productive forces and national income. In the high-tech field, the Soviet Union will be unable to catch up with the United States for a rather long period to come.

Judging from the current situation of the arms race, there are more advantages for the United States. But judging from the political factors in the future, there may possibly be more advantages for the Soviet Union. However, /the general trend is the strategic stalemate between the United States and the Soviet Union. Neither of them can alter the strategic balance./ It is just like what the Americans have said, nuclear deterrence is still playing its role.

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CSO: 4005/815

UNITED STATES

INTERNATIONAL

**BEIJING CRITICIZES U.S. CONGRESS ON HUMAN RIGHTS**

OW301400 Beijing in English to North America 0000 GMT 30 Jun 87

[Text] The American House of Representatives passed two amendments condemning violations of human rights in China. The PEOPLE'S DAILY and XINHUA News Agency have reacted strongly to the accusations. A Chinese Embassy official in Washington has urged the American Government to take a fair and just position on the question. (Yu Nan) has more.

It is not clear why the House of Representatives approved the amendments at a time when the relations between the two countries seem to be making progress. Chinese officials say that the documents are based on lies and distort the true picture.

One amendment says the people in China are denied the freedoms of speech, press, and peaceful assembly. It says freedom of religion is not respected either. The amendment also demands the establishment of a more democratic society in China with a free and open political system. The country's official newspaper PEOPLE'S DAILY says: It is obvious that some American Congressmen are trying to turn people against China and its socialist system. For those people, the paper says, the norms of international law and the sovereignty of other states can be trampled upon at will.

The official news agency XINHUA says the amendment refuses to recognize that people have enjoyed more money and more democratic freedoms since New China was founded in 1949. It says: The second amendment is as groundless as the first. It accuses China of imposing rule over Tibet through military force and violating human rights there. The document says: More than 1 million Tibetans have died and thousands of monasteries and other cultural relics have been destroyed since 1949 as a result of political instability. XINHUA says: The authors of the amendment are trying to sever Tibet from China and other minorities in the country.

One day before the amendments were approved, an official at the Chinese Embassy sent a letter to the Congressmen. Tang Shubei pointed out that China ended the Tibetan system of serfdom in 1951 which allows the people to live as true human beings. He says: The region's economy and living conditions have also improved as a result of the special policies adopted toward Tibet.

Tang Shubei says: The documents grossly violate China's sovereignty rights and territorial integrity and run counter to the United States' own foreign policy. As he points out: The American Government recognizes that Tibet is a part of China. On behalf of the Chinese Government, he has demanded that Washington take measures to reduce the serious consequences of the amendments and prevent similar incidents in the future.

/8309

CSO: 4000/110

## BEIJING TV SHOWS YANG SHANGKUN'S U.S. VISIT

OW231115 [Editorial Report] Beijing Television Service in Mandarin at 1030 GMT on 22 June carries an 18-minute special video report on the recent visit of the Chinese Government delegation, led by Yang Shangkun, to the United States. The report opens with shots of an aircraft flying in the sky, a bird's eye view of Beijing city, and Yang Shangkun, Fang Yi, and others sitting aboard a plane. According to the announcer, a Chinese Government delegation with Yang Shangkun, vice chairman of the Central Military Commission, as head and Fang Yi, state councillor, as deputy head embarked on a trip to the United States on 15 May. He describes the trip as "another important political visit by Chinese leaders, following the visits to the United States by Deng Xiaoping, Zhao Ziyang, and Li Xiannian."

Video then cuts to shots of various U.S. scenes, including some high-rise buildings and some industrial equipment. Then alighting from aircraft, greeted by an unidentified U.S. official, and shaking hands with some Chinese who, flags in hand, are present on the occasion to greet them. An unidentified woman put a lei around Yang Shangkun's neck and kisses him on the cheek. Fang Yi and other members of the delegation shake hands with the welcoming Chinese.

Video follows with a banquet hosted by U.S. Secretary of State Shultz. Shultz and Yang are shown making speeches. Except for a few sporadic words spoken by Yang Shangkun, none of their speeches is heard, nor are their remarks quoted by the announcer.

Video then shows a welcoming ceremony which, according to the announcer is presided over by U.S. Defense Secretary Weinberger. Brief shots show Yang Shangkun and Weinberger saluting.

The following sequence shows U.S. President Reagan receiving Yang Shangkun in the White House. Reagan stands waiting, Yang Shangkun comes forward, and the two shake hands. The announcer quotes Yang Shangkun as saying: "Since Premier Zhao Ziyang and President Reagan exchanged visits in 1984, there have been no big twists and turns in Sino-U.S. relations, and the situation in general has been good. Bilateral friendly relations have made gratifying progress in many fields, but continued efforts are still required." The announcer continues: "Yang Shangkun pointed out that the Taiwan question remains a main obstacle in Sino-U.S. relations, and he hoped that the U.S. Government would do something to eliminate this obstacle. Reagan told



Yang Shangkun that the U.S. Government adheres to the one-China policy and does not support the policy of two Chinas or one China and one Taiwan, and that the United States will promote steady development of the relations between the two countries in accordance with the principles set in previous U.S.-China communiques."

As the announcer adds that Vice Chairman Yang Shangkun and U.S. Government leaders held wide-ranging conversations on international issues of common concern and on bilateral relations, video shows Vice President George Bush shaking hands with Yang Shangkun, Fang Yi, and other members of the delegation, Shultz shaking hands with Yang Shangkun, and Weinberger shaking hands with Yang Shangkun, presumably on separate occasions. Next are some brief shots of Chinese and U.S. officials sitting on opposite sides of a long table and several shots of Yang Shangkun, U.S. Senator Alan Cranston, and other officials sitting at a meeting, presumably a news conference.

The next series of shots show Yang Shangkun and other officials touring various famous places in the United States, including the St. Louis Arch, the "USS Arizona" at Pearl Harbor, and Disneyland in California.

Next are a few brief shots of Yang Shangkun meeting and shaking hands with some people, whom the announcer identifies as overseas Chinese, Americans of Chinese origin, and Chinese students studying in the United States. Video then shows a banquet hosted by Americans of Chinese origin in Los Angeles. Yang Shangkun is seen making a speech. He says: "At present the Kuomintang is still holding a ruling position in Taiwan. If you are to talk about reunification, you must talk with them first, because they are the ruling class and holding the ruling position. Of course, we are not abandoning the hopes that we have placed on our compatriots residing overseas and the people of Taiwan. What does this mean? This means that we hope that they will patriotically support the reunification of the motherland instead of engaging in activities aimed at the division of the motherland into one China and one Taiwan, or into two Chinas. We support everything that is patriotic and in favor of the reunification of the motherland." These remarks are followed by applause. Then, Yang Shangkun is seen raising his glass and drinking with others, saying: "Thank you all."

Video then cuts to shots of a meeting held by Vice Foreign Minister Zhu Qizhen with reporters. The camera first shows Zhu Qizhen sitting with others on a couch, and then zooms in to show him in a closeup. Zhu Qizhen says: "The Chinese Government delegation with Vice Chairman Yang Shangkun as head and State Councillor Fang Yi as deputy head has paid an official visit to the United States from 15 to 27 May. This has been an important visit by a Chinese delegation to the United States. During the visit, the Chinese Government delegation has met with President Reagan, Vice President Bush, and other U.S. Government leaders and made extensive contacts with public figures of various circles in the United States. This visit has been

successful. It has helped enhance mutual understanding between China and the United States, promoted the development of the relations between the two countries, and increased the friendship between the two peoples."

The video report ends with brief shots showing Yang Shangkun receiving a lei presented by an unidentified lady, shaking hands with a U.S. naval officer and other well-wishers, speaking into a microphone, and touring Disneyland.

Unless otherwise noted, throughout the report, no dates or locations are given by the announcer for the various events.

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CSO: 4005/819

## BAN YUE TAN URGES ACCEPTANCE OF PRICE RISES

HK021031 Beijing BAN YUE TAN in Chinese No 11, 10 Jun 87 pp 8-11

[Article by Yu Youhai (0060 2589 3189): "Not All Price Rises Are Condemnable"]

[Text] The sight of this title may give some readers cause for complaint. Given price rises, if we refrain from using abusive language, are we instead to answer with cheers?

In fact, if we calm down a bit, we will find that there are still reasons justifying the argument that "not all price rises are condemnable."

This is because cases of commodity price rises vary. Some are unjustifiable. Some are justifiable.

The former involve the random upward adjustment of prices against the state policy and should be entirely condemned. In this regard, despite repeated government orders issued to prohibit the practice, some units and individuals go their own way, marking up commodity prices, or raising prices in a subtle way. This illegal act is not just to be condemned. It should, further, be made a target of exposure and struggle. The government should be helped in serious investigations to put an end to the practice.

Price rises compatible with state policy should not be condemned. One reason is that they are justifiable.

For a long period of time, our prices reflected neither value nor the relations between supply and demand. Socially necessary things were sold at low prices, with small profit margins. There was no enthusiasm on the part of producers and operators. Supply always fell short of demand. Things not needed by society fetched high prices with fat profit margins and were developed in a random way, causing accumulation of stocks and waste. To change this irrational situation, we must have a pricing reform, with a mix of upward and downward price adjustments, enabling price differences between various commodities to become gradually rational. The problem is that the prices of our agricultural and sideline products, raw materials, fuels, and other primary products have long been on the low side. The upward adjustment of their prices is likely to be followed by rises in the prices of some

processed products. The general commodity price level during reform will inevitably climb. This means price rises exceeding declines.

Should these rational price rises be condemned, after all? Or should we adopt the opposite attitude, making a serious analysis? I think that a comparison between market conditions since the 3d Plenary Session of the 11th CPC Central Committee and those of a number of years before it will enable us to understand some of the reasons why.

In analyzing the national economy before, on innumerable occasions we stressed "stability of commodity prices and buoyancy of the market." Actually, for not a small number of years, there was "stability of commodity prices." No buoyancy of the market" was seen. Many things only had price tags on them and were not actually available on the market. It may be remembered that in the past, everyone carried coupons of all sorts when buying what was needed to keep fed and clad and for everyday use. Prices marked on the labels of goods in shops and groceries did remain very "stable." For a number of years, they remained unchanged, or changed little. But things available for sale became fewer and fewer. People sometimes stood in long lines without succeeding in getting what they wanted. In Beijing, if you wanted something like peanuts and melon seeds, you could only wait until around the Spring Festival. You would then be given a little, with a ration of a few ounces for each person.

Things have now changed. Most commodities have been put on the open market, with no coupon required for a purchase. They can be freely bought and chosen to satisfy your own needs. This change has naturally followed the good policy for reform, opening up, and reinvigoration. But it must never be forgotten that some of the credit must go to pricing reform. Meat, poultry, milk, peanuts, and other agricultural and nonstaple products were before in short supply for a long time. Now they are adequately supplied to satisfy demand. Why? This is because simultaneously with the introduction of the household contract responsibility system of basing remuneration on production in the countryside, the state raised the purchase prices for agricultural and nonstaple products 77 percent in the 8 years from 1979 to 1986. With peasants' enthusiasm for production rising, more things are being produced.

These changes tell us that revisions of irrational prices, including price increases for some commodities, bring prices gradually in line with reality when it comes to value and the relations between supply and demand. This plays a substantial role in boosting social productivity. Given the initial effects of this "most effective means of regulation" and the firm implementation of a series of other policies on reform and opening up, these years have witnessed an unprecedented pace for our national economic development and unprecedented market buoyancy. In the past 8 years, as compared with the 26 years from 1953 to 1978, the average annual growth rate of various main economic indicators in the country clearly quickened. The increase in total social output value rose from 7.9 percent to 10.1 percent; total industrial and agricultural output value from 8.2 percent to 10.1 percent; national income from 6 percent to 8.7 percent; the state's revenue and the amount of money not included in the budget held by departments, areas,



and state enterprises from 8 percent to 12.9 percent; total retail sales of social commodities from 6.9 percent to 15.5 percent; and the total volume of imports and exports from 9.5 percent to 17.3 percent. This is to say that in the past 8 years, as compared with the 26 preceding years, there has been a switchover from a slow to a quick pace in our economic development and from scarcity to plenty in market commodities and that this is closely linked to the changeover from inflexible to flexible commodity prices. This obvious difference can well make readers do a little bit of thinking: Should we be emotionally attached to those earlier days, with the "stability" of commodity prices but with the development of production hindered, causing a shortage of commodities and difficulty in obtaining things? Or should we be involved in reform as we are now, rationally raising prices a little and thus bringing about the development of production and an ample supply of commodities, with the demand for daily necessities basically satisfied?

We must choose the lesser of two evils, or choose a greater advantage over a lesser one. After these years of practice, probably few would deny that rational upward adjustment of prices is conducive to the development of production and to market buoyancy. What is worth noting is that there is an argument in society that the increase in commodity prices has exceeded the increase in people's income, with decline in the people's living standard and a hard time being experienced financially. Some people have also passionately said: "I would rather have no increase in income than price rises!" These arguments must be seriously studied.

There is no denying that due to price rises, a small number of people in towns and townships or in the countryside have in recent years suffered a reduction in actual income with a decline in their living standard. This mainly involves families with no or a limited increase in income and with few members at work. This section of people deserve our sympathy for their plight. The party and the government have attached great importance to this matter and have been or are taking effective measures to bring about a solution.

But this section of people, after all, does not represent the people as a whole. Facts show that as far as most people in urban and rural areas throughout the country are concerned, the increase in prices has not exceeded but has fallen below the increase in income and that the living standard has not dropped but improved.

According to statistics from relevant state departments, in the past 8 years up to 1986, the retail prices of various commodities of our country went up 35.8 percent, which means that a sum of 135.8 yuan spent last year could buy what was worth only 100 yuan in 1978. This was much greater than the increase of 21.6 percent in retail commodity prices in the 26 years before 1972. But in the same period, peasants' per capita net income rose from 134 yuan in 1978 to 424 yuan, an increase of 216 percent. The income of members of town and township worker households devoted to living expenses rose from 316 yuan in 1978 to 828 yuan, an increase of 162 percent. These exceeded an increase of 35.8 percent in commodity prices by more than 5 times and 3.5 times respectively. From this, we can easily see that the commodity price

increases in recent years have been offset by increases in income. People get much more actual money than before.

Some comrades say that it is a fact that their income is higher than before. But because of inflation with the rise in prices, their actual living standard has not improved. If we just take a look at how friends and relatives, colleagues and neighbors fare in regard to food and clothing, we can realize that this argument is unrealistic. Figures for 1985 recently obtained are quite convincing. In that year, as compared with 1978, the average annual grain consumption of urban and rural residents rose to 254.4 kg from 195.5, edible vegetable oil to 5.1 kg from 1.6, pork to 14 kg from 7.7, and cloth to 11.7 meters from 8. Bicycles owned by every 100 people rose to 21.3 from 7.7, television sets to 6.7 from 0.3, and radios to 23.1 from 7.8.

If these figures still do not suffice to make things clear, then a comparison between two sets of figures reflecting these years of pricing system reform and those years before it can prove more convincing.

First, figures related to the consumption level. The average per capita spending on consumption by residents of the whole country in the preceding 26 years rose from 76 yuan to 175, with an average annual increase of 3.8 yuan. In the past 8 years, it rose from 175 yuan to 450, with an annual increase of 34.4 yuan. The latter figure is nine times the former.

Second, figures related to residents' savings. After the preceding 26 years, national residents' savings deposits totaled 21.6 billion yuan, with a per capita share of less than 22 yuan. After the past 8 years, these deposits reached 223.7 billion yuan, with a per capita share of more than 210 yuan. The latter figure is 9.6 times the former.

From this, it can be seen that the pricing system reform--with rational price increases and other commodity price adjustments--has not only stimulated the development of production but also brought about an increase in the people's income and an improvement in their living standard. That being so, such an attitude as condemning all cases of price rises is not to be recommended. Instead, we should show an understanding where rational price increases are concerned.

In the past few years, the party and the government in revising prices have all along prudently considered people's capacity for absorption economically and strived to ensure that the increase in the income of the masses of people is not lower than the increase in commodity prices. For that matter, fruitful results have been achieved. This is common knowledge. But just relying on the government's efforts in this regard is not sufficient. This work requires the masses of people to act in coordination and raise their own ability to absorb priced revisions psychologically. It must be noted that not only must the existing irrational prices be revised but new revisions must be made with changes in the cost of production, the relations between supply and demand, and so forth in the days ahead. The trend of commodity prices still going up a bit will also last for a period of time. It is unrealistic and not correct

to count on prices being "stale," as before, and on their just going down and not up. For that matter, a procedure must be gone through from incompatibility to compatibility, because this involves a reform of traditional concepts and force of habit. We must understand the advantage of letting prices in their fluctuations generally reflect value and the relations between supply and demand. We must realize that this is conducive to the revitalization of the economy and an improvement in the living standard and is where the fundamental interests of the masses of people lie. If we understand this we will not only resolutely oppose any price increase freely made in violation of policy but also show support for rational price rises compatible with the laws of the development of the commodity economy.

It is not very easy to really understand and act on this. But history will eventually shows that most of our cadres and people will definitely be active advocates of the pricing system reform, just as in the case of other reforms.

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CSO: 4006/741

## PRC PAPER DISCUSSES ENTERPRISE LEASING SYSTEM

HK031400 Beijing GUANGMING RIBAO in Chinese 13 Jun 87 p 3

[Article by Zhao Xiyu (6392 1585 0645), general manager of the Shenyang Automobile Industrial Company: "On Enterprises Operated Under the Leasing System"]

[Text] Along with the in-depth development of the reform of the economic structure, operation under the leasing system--a new form of operation--has emerged in the industrial and commercial enterprises of our country. This article will try to give an overview on operations under the leasing system.

## The Basis of Operation Under the Leasing System

Under socialist conditions, the system of leasing enterprises to individuals to manage has been established on the following theoretical bases:

1. The establishment of the system of leasing enterprises to individuals to manage is necessary in the reform of the ownership system. At present, economic relations in China's cities have not yet been smoothed out. In my opinion, the main reason is that we have not yet smoothed out relations in the ownership system. For quite a long time, under the influence of "Leftist" ideology, many people thought that the larger in size, the more collective in nature, and the "purer" the ownership of the enterprises, the more the ownership of the enterprises could embody the superiority of socialism. According to such logic, the ownership system can only be transformed from the individual ownership to the collective ownership, and again from the collective ownership by the whole people. However, the practice of the reform of the economic structure in the rural areas has completely negated the one-sided view that the "purer" the ownership of the enterprises, the more such ownership can embody the superiority of socialism. In the course of the reform of the economic structure, a large number of peasant entrepreneurs have emerged in the rural areas of China. The reason some peasants have become peasant entrepreneurs and have been able to play a vanguard role in leading other peasants to find ways to become prosperous in the rural areas is not because they learned some extraordinary skills overnight, but because the reform of the economic structure carried out in the rural areas was first started with the reform of the ownership system, which has helped to smooth out the economic relations in the rural areas of our country. Although the reform of the ownership system carried out in the rural areas has not yet



resulted in a distribution of the ownership to each individual peasant, the part rural economic relations characterized by "state ownership and collective management" have no disappeared in the rural areas as a result of the reform of the ownership system. The fundamental characteristic of the system of contracted responsibilities on the household basis with remuneration linked to output is "the separation of the ownership from the power of management and a clear definition of the responsibilities." This fundamental characteristics has fully exploited the enthusiasm and creativity of the broad masses of the peasants in the course of building socialism. In the cities, since the factory director (manager) responsibility system was implemented on a trial basis in some enterprises, although the economic results of these enterprises have improved, their problems have not yet been completely solved. The core of their problems is that in these enterprises, ownership has not yet been separated from the power of management. Under the socialist conditions, the system of ownership by the whole people is primarily embodied in the means of production being owned by the whole people. This is the basis on which the state exercises its unified leadership over the state-owned economy. However, it is neither necessary nor proper for the state to carry out direct management and administration over the majority of the means of production owned by the whole people. What the state should do is place a large number of the means of production under the control of the various enterprises, let the various enterprises directly possess, control, and use the means of production, and enabled the various enterprises to enjoy the power of independent management. Numerous facts have proved that the earlier we separate the ownership from the power of management, the more initiative we will arouse, whereas the later we separate the ownership from the power of management, the less initiative we will have. And if we do not separate the ownership from the power of management, we will certainly be thrown into passivity. I think that the operation under the leasing system is a relatively good method of separating the ownership of the enterprises from the power of management of the enterprises.

2. The establishment of the system of leasing enterprises to individuals to manage is determined by the level of the present productive forces of our country. Because the present economic relations are determined by the equality and level of the present productive forces, the separation of ownership from the power of management is also, in the final analysis, determined by the status quo of our country's productive forces. The lower the standard of the social productive forces, the more labor will be regarded as a means of life, and the more laborers will regard their working ability as their natural privilege and their private property. Moreover, so long as there is still a relatively big gap between various enterprises in terms of labor productivity, the enterprise workers with a relatively high standard of labor productivity will naturally regard their relatively high standard of labor productivity as a type of privilege. If the society pays no attention to the relatively big gap between the various enterprises in terms of labor productivity, the enterprise workers will certainly not try to raise their labor productivity. If we admit that there is indeed a relatively big gap between the various enterprises in terms of labor productivity, then the enterprises must carry out independent accounting and the state should not

directly manage the enterprises. Therefore, in the socialist society, if the separation of the ownership of the enterprises from the power of management of the enterprises is ultimately determined by the status quo of the productive forces, then it is not because of the demand of a high-level socialization of production, but because of the demand of a low and unbalanced-level socialization of the production that the ownership of the enterprises should be separated from the power of management of the enterprises. According to the principle that the relations of production must conform with the development of the productive forces, the "separation of ownership from the power of management" must be carried out because at present, the productive forces of our country are still relatively backward.

3. The establishment of the system of leasing enterprises to individuals to manage is the demand of the development of the commodity economy. During the socialist period, we must still make great efforts to develop the commodity economy. Because the social needs are very complicated and constantly changing, the conditions of one enterprise always differ from those of another, the economic ties between various enterprises are intricate, and the production results, the management results, and the economic interests of various enterprises also vary greatly, so it is impossible for the state organs to wholly grasp and promptly respond to these frequent changes. If the various types of enterprises under the system of ownership by the whole people were directly operated and administered by the state organs, these enterprises would inevitably suffer from subjectivism and bureaucratism. As a result, the state organs would either fail to effectively manage and administer the enterprises or excessively interfere with the affairs of the enterprises, resulting, no doubt, in the suffocation of the vitality and vigor of the enterprises. Therefore, only by separating ownership from the power of management through various specific forms will we enable the enterprises to really become relatively independent economic entities, become the socialist commodity producers and operators which have decisionmaking power in their own management and operations and assume full responsibility for their own profits and losses, and become legal entities that have certain rights and shoulder certain responsibilities. Only by separating ownership from the power of management will our socialist enterprises be infused with vitality and vigor.

4. The establishment of the system of leasing enterprises to individuals for their management is the actual need for arousing the enthusiasm of the enterprise operators. The key to "separating the ownership from the power of management" is to arouse the enthusiasm of the enterprise operators. In a certain sense, the management of an enterprise is ultimately determined by the management ideology and management ability of the operators of the particular enterprise, especially by the enthusiasm of the operator of the enterprise. We advocate the spirit of behaving as masters of our own affairs every day. The enterprise operator's spirit of behaving as masters of his own affairs is embodied in the enterprise operator being able to regard the management and operation of a socialist enterprise as those of his own undertaking. In order to realize this spirit, it is necessary to carry out the reform of the present administrative structure and management structure and to closely link the destiny of the enterprise operators with the destiny of the enterprises they

operate by implementing a number of new measures. In order to closely link the destiny of the enterprise operators with the destiny of the enterprises they operate, we must realize a high degree of unity between the responsibilities, the powers, and the interests of the enterprise operators to directly link the management results of the enterprises with the interests of the enterprise operators. Once the enterprise operators can obtain certain interests, there is bound to be some motive force and pressure urging them to consciously compete among themselves. Therefore, I think that it is all the more necessary to separate ownership of the enterprises from the management power of the enterprises. And only by separating that ownership from the management power of the enterprises will we be able to clearly define the responsibilities, powers, and interests of the enterprise operators and fully arouse the enthusiasm of the enterprise operators.

#### The Nature of Operation Under the Leasing System

The operation under the leasing system is a good form of separating ownership of the enterprises from their management power under the premise that the nature of the ownership of the means of production has not been changed. The operation under the leasing system is the self-perfection and self-development of the socialist public ownership system and is therefore quite different from the capitalist leasing system in nature.

First, the purpose of the operation under the socialist leasing system is different from the purpose of the operation under the capitalist leasing system. In the capitalist countries, except for a small number of state-owned enterprises, the majority of the enterprises are owned by capitalists. Therefore, the leasing relations in the enterprises owned by the capitalist in the capitalist countries have determined that both the lessors and the lessees are exploiters who are bent solely on profit. They share one common aim, which is to exploit the laboring people and grab the fruits of their labor. Under the socialist system, operation under the leasing system has determined that the sole purpose of the lessors and lessees is to develop the social productive forces and create the greatest amount of wealth of the best quality for the whole society. Take Fei Zhongkai, a lease-holder in the Automobile Axle Pin Factory of Shenyang City, as an example: After becoming a lease-holder, he adopted a series of reform measures and brought a dying enterprise back to life and attained the target set in the leasing contract a year ahead of schedule. If he had continued to work for one more year in that way, he would undoubtedly have gained a huge profit. But, he did not do so, and instead, he applied to the authorities to carry out experiments in a relatively backward and poorly-managed enterprise and carried out the collective operation under the leasing system in that enterprise. Because operation under the leasing system in the socialist enterprises has determined that the lessees must be held responsible for the losses caused by their poor management and must even sell their private property or use their own savings to pay for the losses their poor management has caused to the state or the collectives if the situation requires them to do so, so they regard their leasing contracts as "imperial swords" which they can use not only to fight against any erroneous behavior detrimental to the interests of the state or



the interests of the collectives but also to implement the various economic responsibility systems at all levels and bring into full play the enthusiasm of the broad masses of the staff and workers to greatly increase the economic results of the enterprises leased to them.

Second, operation under the socialist leasing system and operation under the capitalist leasing system makes different demands on the lease-holders. The purpose of the operation under the capitalist leasing system has determined that the capitalists only want the lease-holders to pay them more rental, but do not care about the welfare of the staff and workers of the leased enterprises and nor do they care about what contributions the enterprises can make to the society. As a result, the capitalists will lease their enterprises to those people who can pay them the highest rent. The nature of the operation under the socialist leasing system has determined that our enterprises will not be leased to whoever can pay the highest rent. The requirements set by us on the lessees are that they should be people with relatively good political quality, relatively strong professional ability, and the ability to organize and lead the broad masses of the staff and workers to carry out the building of the four modernizations. The lease-holders must be excellent leaders who are supported by the majority of the masses and socialist entrepreneurs who are capable of leading the broad masses of the staff and workers to embark on the road leading to common prosperity through their own effective management of the enterprises leased to them and are capable of creating more wealth for the enterprises leased to them, for the state, and for the whole society as well. Therefore, we have realized in practice that the work of selecting the lessees is much more difficult and more complicated than the work of organizing the leading bodies of the ordinary enterprises. This is because after the leading bodies of the ordinary enterprises are organized, the members of the leading bodies can still be removed and replaced at any time if they are found unsuitable in their positions, whereas, generally speaking, the lessees cannot be removed or replaced so easily because the leasing of an enterprise to an individual has been agreed upon by both the lessor and the individual in the form of a contract according to the relevant legal procedures so that neither side can unilaterally terminate the contract without special reason. Thus, the lessees must not only pay rental to the state or the collectives but also assume full responsibilities for the development of the enterprises leased to them for operation. Thus, during the term of the lease, the lessees are required to ensure that all equipment is well preserved and investment must be made to carry out technological transformation in the enterprises leased to them in order to raise the technological standard of the products, improve the quality of the products, strengthen the enterprises' capability of carrying out the expanded production, and increase the reserve strength of the enterprises leased to them for operation.

Third, the result of the operation under the socialist leasing system is different from the result of the operation under the capitalist leasing system. Under the capitalist system, after the capitalists lease their enterprises to the individuals, new exploiters will be created, more surplus value created by the workers will be taken away by the capitalists and the



lessees without payment, and the proportion of the workers' wages in the total wealth created by the workers will decrease, and the workers will encounter more severe exploitation. Therefore, as far as the general trend is concerned, the result of operation under the capitalist leasing system will hinder the development of the productive forces. The operation under the socialist leasing system has been established on the basis of the public ownership system. Operation under the socialist leasing system will result in the creation of more wealth for the whole society, increase the profits of the state and the leased enterprises, and correspondingly increase the wages of the state and workers of the leased enterprises. This will fully embody the interests of the state, the collectives, the staff and workers, and the enterprise operators so as to bring into full play the enthusiasm of the broad masses of the staff and workers in carrying out the cause of the socialist construction and push forward with the development of the productive forces. The reason why the lessees get paid more than other staff and workers is because they contribute more to and shoulder heavier responsibilities for the enterprises. Higher pay for the lessees shows that the state or the collectives affirm and support their work.

#### The Countermeasures for Carrying out Operation Under the Leasing System

Since the enterprises began to operate under the leasing system 3 years ago, such operations have achieved universally acknowledged successes (Statistics of the State Commission for the Reform of the Economic Structure show that the success rate of operation under the leasing system is 95 percent), but have also suffered some failures at the same time. In the process of carrying out operations under the leasing system, I have heard some views and responses from society. Here, I would like to talk about my own views on some of the questions and also provide some countermeasures for solving these questions.

First, the problem of the short-term behavior of the lessees. Some people think that the leasing of the enterprises to the individuals will definitely cause certain short-term behavior in the lease-holders, such as not caring about the long-term development of the enterprises, solely pursuing profits, not repairing the equipment and the factory buildings, not paying attention to the training of qualified personnel for the enterprises, and so on. I believe that these problems have not been caused by the leasing of the enterprises, but instead, have long existed in some enterprises. Generally speaking, because the socialist enterprises lack a strong capability of self-restriction, very often, their behavior tends to be irrational. However, one case of the Automobile Industrial Company of Shenyang City shows that the problem of the short-term behavior has not yet emerged in the leased enterprise. This is because in a leased enterprise, the lessees has to operate according to the contract which is legally binding. The contract signed between the lessee and the lessor not only sets the amount of profits and rentals to be earned and paid by the leased enterprise in each fiscal year but also clearly sets down the specific production tasks for the enterprise in its long-term development, including the maintenance of the production equipment, and stipulates that the situation concerning the fulfillment of these specific production tasks will be periodically examined and supervised.

This determines that the lessee must make an overall arrangement and a long-term plan for the development of the enterprise during the period in which the enterprise is leased to him. In this way, the interests of the lessee and the interests of the lessor are well coordinated and closely united through their common concern for both the short-term and the long-term development of the enterprise, thus guaranteeing the long-term development of the leased enterprise.

Second, the question of mortgaging the property of the lessee. Some people think that the mortgaged private property of a lessee is different from the assets of an enterprise that is leased to an individual because if the lessee cannot effectively carry out the operation of the enterprise, and as a result, the enterprise suffers losses because of the decrease of the production output of the enterprise, the lessee will certainly have no ability to pay for the economic losses of the enterprise. This view is only partially correct. However, as we have mentioned above, the socialist enterprises will not be leased just to those who have money, but will be leased to those who have real management ability and management experiences. At present, some people have such a misunderstanding, thinking that in the capitalist countries, the enterprises are only leased to those who can mortgage their private property to the owners of the enterprises. As a matter of fact, once the "ownership and the management power are separated," no matter under what social conditions, when an enterprise suffers losses, the one who suffers most is the owner of the enterprise because the lessee can only pay for a small portion of the losses and the mortgage of the private property of the lessee can only give pressure and motive force to the lessee, but cannot help to pay for all the losses. Therefore, when the leasing system is first implemented at an experimental stage in our country, we can properly loosen our control on the leasing of the enterprises in the light of the realistic conditions of our country and can gradually adopt various measures to solve the problem of whom should be held responsible for the losses of the enterprises. At present, apart from adopting the widely applied methods such as paying deposits, mortgaging property, creditor insurance, guarantee by the enterprises under individual ownership, and so on. These methods will not only exert the pressure of property mortgage on the lessees but also enable them to assume legal responsibilities for the operation of their enterprises so as to make it possible for the operation under the leasing system to be carried out on a wider scale.

Third, the question of income of the lessees. Stressing the responsibility, the power, and the profits is an outstanding characteristic of the enterprises operated under the leasing system. How the responsible departments at a higher level understand this characteristic determines the destiny of the enterprises operated under the leasing system. In order to solve this problem we must lay stress on the interests of the lessees. This is because after an enterprise is leased to an individual for management, the individual lessee will run the risk of paying for the losses of the enterprise with his private property if the enterprise fails to accomplish its production goals, so doubtlessly, the individual lessee should get his relevant income if the enterprise succeeds in accomplishing its production goals. If the lessee

is held responsible for the bankruptcy of the enterprise, but still gets the same amount of income and bonus as he did before, then how can it be possible for us to make him pay for the losses of the enterprise with his private property when the enterprise fails to accomplish its production goals? We should understand that the income of the lessee is only the profit he gets after carrying out the operation of the enterprise leased to him for 1 year. The income of the lessee will be determined by the operation of the enterprise in the future. Moreover, the lessee's income consists of three parts: salary, bonus, and the risk income. This type of income is different from the type of income the staff and workers and the state cadres can get after carrying out the struggle of ensuring stable yields despite drought or excessive rain. Therefore, in order to carry out the operation under the leasing system, it is necessary to stress the interests of the operators. This is determined by the characteristics of the operation under the leasing system. However, the lessees can only get more income on the premise that the state gets more revenue, the leased enterprises retain more profits, and the staff and workers have better and more welfare and get more bonuses. So, we must scientifically and rationally set various quotas of economic development, especially the profit quota and the rental quota. If the quotas are set too high, the lessees are doomed to fail to comprehensively and successfully manage the enterprises leased to them so that the enterprises are doomed to suffer losses; if the quotas are set too low, then the superiority of the operation under the leasing system cannot be brought into full play and it will only be much easier for the lessees to fulfill the production quotas and get much higher incomes. And this situation can hardly be accepted by the staff and workers and nor can it be accepted by the whole society. Therefore, to scientifically and rationally set the quota of profits, the quota of rentals, and some other quotas concerning economic development is a major question which directly affects the relations between the interests of the state, the interests of the enterprises, the interests of the staff and workers, and the interests of the lessees.

Moreover, how the leased enterprises should handle the relations between the party and the government is also a question demanding prompt study and solution. At present, some serious problems and contradictions have appeared in a number of leased enterprises which have failed to coordinate the relations between the party and the government. I believe that this situation is associated with both the question of the leadership structure of the leased enterprise and with the question of the transformation of people's ideologies and traditional concepts. All the leasing contracts clearly stipulate that the lessee is the factory director and the representative of the legal person of the enterprise who plays a central role in the management of the enterprise and assumes full responsibilities for the operation of the enterprise. However, the supervisory role played by the party organizations in these enterprises has not been changed and the position of the broad masses of staff and workers as the masters of the enterprises has not been changed, either. Therefore, the lessees should still consciously accept the supervision of the party organizations, fully respect the democratic rights and the master's position of the staff and workers, and make decisions on the basis of the collective wisdom. Only then will the lessees be able to turn the decision-

making process of the leased enterprises into the conscious action of the broad masses of the staff and workers and will they be able to successfully accomplish the glorious task of carrying out the experiment of the operation under the leasing system in the process of the reform of the economic structure.

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CSO: 4006/740



## ECONOMY IN INITIAL STAGE OF SOCIALISM DESCRIBED

HK021011 Beijing GUANGMING RIBAO in Chinese 15 Jun 87 p 3

[Article by Su Dongbin (5685 2639 2430): "Several Points in Understanding the Economy in the Initial Stage of Socialism"—passages within slantlines published in boldface]

[Text] The theoretical generalization of the special features of the economy at the initial stage of socialism cannot be entirely based on the idea put forth by the founders of scientific socialism more than a century ago it must also be based on the reality of China and other socialist countries. Based on this principle I hold that an actual economy in the initial stage of socialism has the following special features:

/1. The socialized mass production system with an initial scale is the material prerequisite of the initial stage of socialism./ If socialism is to become a real social system it can only be built on a certain material basis. It was based on this principle that the founders of Marxism studied the emergence and development of socialism. The emergence of a socialized mass production system which has significant influence on the economic lifeline of society is an important hallmark for the beginning of the initial stage of socialism. As a stage of development of human society which is more advanced than the capitalist system, the socialist system should produce higher labor productivity than that in capitalist society. However, since socialism has always triumphed in relatively underdeveloped countries, the productivity of all these countries in the initial stage of socialism is lower than that in developed capitalist countries. Therefore, the initial stage of socialism in a country will end only when the level of economic development catches up with the level in modern developed capitalist countries. So this can be regarded as the hallmark the end of the initial stage of socialism.

/2. Workers' dual ownership of economic resources is the basis of property relations in the initial stage of socialism./ Public ownership of the means of production is the organizational form required by socialized mass production. Marx held that the "ultimate goal" of society is to "realize the whole society's direct possession of all production means, namely, the land, railways, mines, machinery, and so on, so that they will be at the whole society's disposal and be used in the interests of the whole society." (Footnote 1) ("Selected Works of Marx and Engels," Vol 4, p 258) But he still set much store in the historical process of socialization, because private

ownership can only be completely abolished when the means of production are produced in large quantities as a necessary precondition for the abolition of private ownership. In the initial stage of socialism, on the one hand, many ownership systems coexist, such as ownership by the whole people, collective ownership, the individual and private economic sectors, and economic establishments wholly owned by foreign businessmen. On the other hand, there are different levels within the public ownership sector, for example, the economy under the ownership by the whole people consists of central and local economies, and it also contains a mixture of the collective economy and various other ownership systems. So the socialist laborers include collective and individual laborers and they have the status of dual property owners--they are the owners of the properties under the ownership by the whole people in its proper sense and they are also the owners of "additional properties" other than publicly owned properties. For example, regarding the property relations of the agrarian class, except land which is still publicly owned, almost all means of production belong to individuals. As for the working class, while a small number of workers hold shares, most workers are the owners of newly acquired assets of their own enterprises. Intellectuals are engaged in the reproduction process with a particularly high level of labor resources, namely, their labor force. All these form the special property relations relating to laborers in the initial stage of socialism.

/3. Enterprises' incomes serve as the basis for distribution relations in the initial stage of socialism./ As an economy which is characterized by the exchange of equal values, the commodity economy does not recognize the input of individual labor time but the value of necessary social labor time; and it does not recognize the amount of labor contributed by the individual but that contributed by the enterprise as a collective. So, the distribution relations in the initial stage of socialism where the commodity economy exists are naturally divided into two levels: First, between different enterprises, their income, due to the restrictions of their management standards and other factors, is not directly determined by the quality and quantity of the labor contributed by all their employees, but by the amount of collective labor that the market can absorb. When some products of an enterprise fail to accrue full compensation, the amount of labor represented by these products will be rendered invalid labor or negative labor. And this may even lead to the economic phenomenon of "an increase in production output but a decrease in income." The enterprise's income served as the basis for individual laborers' interests. Second, distribution within the enterprise is not calculated according to the amount of direct labor provided by laborers but according to the amount of value provided by laborers. Of course, this type of income is not the laborers' total economic income but only a basic part of it (since they also enjoy various welfare benefits provided by the state). Due to different factors, such as property relations, management standards, production conditions, and simple and complicated labor, in the initial stage of socialism there are of course some other auxiliary forms of distribution, such as distribution according to the proportion of capital, distribution according to ability, and so on. The common effect of all these factors will inevitably result in a case where some people will get rich before others. Due to the limitation of the total amount of social labor in the initial stage

of socialism, the average income of laborers will not be high. At the same time, due to the presence of the above factors, there will be a reasonable gap between different laborers in their income, although this gap will not lead to the polarization of social strata and the emergence of profit-taking strata. This is an economic phenomenon which indicates that society recognizes the ownership of personal labor and the partial ownership of personal properties. In the final analysis, there is no doubt that the existence of such a gap can play a positive role in bringing about the common prosperity of laborers. Practice has shown that egalitarianism will only result in common poverty.

/4. A plan-oriented market is an important feature of economic operations in the initial stage of socialism./ A socialist country has two major economic administrative functions, namely, the rational distribution of resources and the fair adjustment of income. And these two functions are realized mainly through the market economy. However, in the initial stage of socialism, the input of all elements of production into the market and full competition between enterprises are impossible. In order to realize a relative balance between aggregate demand and supply in society the state has to retain a certain degree of mandatory planning and practice unified distribution of certain rare resources that are in short supply. Therefore, the market which is under government control is in fact a semi-market economy.

Without directly interfering in enterprises' everyday operations, the state arranges the essential ratio between accumulation and consumption through the formulation of a development strategy; to rationalize the economic structure through direct investment and the formulation of industrial policy and planning; to create an anti-monopoly market environment through the construction of an infrastructure; and, with the help of some economic levers, to control the scale of investment in fixed assets (for example, make enterprises take the risk in investment) and to adjust the gap in income between different laborers. (For example, taxation can help to turn part of personal income into social accumulation.)

In other words, a plan orientation will naturally take place in the market economy. A market economy regulated by the government is different from both the command economy under unified planning and the free competition economy which suffers cyclical crises as a result of the spontaneous effects of the market. Of course, at this stage, the full market mechanism that operates completely under the direction of guiding plans has not been established. In other words, we must look for an "invisible hand" with the help of a "visible hand." Thus, we can conclude that planning based on the commodity economy, accompanied by necessary administrative means (say, anti-inflation measures), is one of the main features of the initial stage of socialism in economic administration.

/5. The contradictions between the diversity of social interests and the unitary nature of enterprise interests constitute the economic contradictions at the initial stage of socialism./ An analysis of the economic basis, process, and economic results shows that the special economic characteristics of the initial stage of socialism are of a relatively underdeveloped commodity

economy, a cultural structure with a lower standard, and obstructive to the overall self development of laborers. Under these circumstances the social economy is aimed at economic growth and the laborers' stability. But enterprises basically have only one aim, namely, the optimization of profits. Regarding the form of distribution, society always calls for the implementation of the principle of exchange of equal labor with a view to safeguarding the interests of all the laborers, while enterprises always call for the implementation of the principle of equal values with a view to safeguarding their own interests. For this reason, the state sometimes has to safeguard social stability at the cost of efficiency. (For example, enterprises have to accommodate more of the labor forces to help solve the employment problem), or sometimes it has no choice but to dampen the initiative of certain laborers with a view to narrowing the gap in income. Enterprises may also scheme against the state in terms of taxes and product quality. Therefore, economic development may face dilemmas from time to time.

Economic operations in the initial stage of socialism are not aimed at removing this contradiction but at mitigating it and turning it into a motivating force for economic development. For this reason, we should only establish a new order in the socialist commodity economy through social reform. The economic nature of the reform lies in correctly understanding and handling of the exclusive interests and distribution relations of the initial stage of socialism. For example, to establish a good economic mechanism we must turn enterprises into entities of commodity production and foster a stratum of entrepreneurs who "will prosper or decline" along with enterprises. Entrepreneurs are the guardians of socialist public ownership since they help to realize both the interests of the state and the staff of enterprises. Only when socialist entrepreneurs are fostered and their special interests in managing their enterprises are protected will socialist enterprises show great vitality.

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CSO: 4006/741



## SHANGHAI JOURNAL REVIEWS PRC'S ECONOMIC REFORM

HK031110 Shanghai SHIJIE JINGJI DAOBAO in Chinese 15 Jun 87 p 14

[Article by Xu Jingan (1776 2529 1344), researcher of the China Economic Structural Reform Research Institute: "Reform in Retrospect and Prospect"]

[Text] The Basic Achievements in Reforms Over the Last 8 Years

The following changes have taken place in the overall situation of China's economic structural reform over the past 8 years:

--As a result of reforming the ownership and operational forms, a macroeconomic base has initially emerged for the existence and development of the commodity economy. The contract system on a household basis has replaced the centralized labor and distribution carried out by production teams, thereby forming rural economic cells. Urban enterprises have changed the practice of monopolizing revenues and expenditures and linked their workers' interests with the results of their operation. This has brought a motivation to seek profit and the impetus to tally with market changes. In the course of consolidating and developing the economy under public ownership, the collective economy, the individual economy, and other economic forms have greatly developed. With the development of various economic and operational forms, commodity producers are beginning to break away from the practice of everybody eating from the same big pot. This in-depth change in the macroeconomic mechanism served as a basis for the growth of the commodity economy.

--The commodity market has expanded following the reduction of mandatory plans in the production and circulation fields and of the practice of setting unified prices. By the end of 1986, the types of industrial products produced under mandatory plans fell from 120 to 60, and the types of materials under state monopoly distribution from 256 to 26. Floating prices were introduced for 65 percent of agricultural and sideline products, 55 percent of industrial consumer goods, and 40 percent of production materials. The development of the commodity market has provided the necessary conditions for the operation of the market mechanism.

--Following the change in the form of distribution of national revenues, the financially-supported economy is shifting to a credit economy. Through reforms over the past few years, the income of the citizens has increased by

a large margin, the percentage of profit retention of enterprises has risen, and revenues outside the plan have increased. The proportion of revenues to national income dropped from 35 percent in 1978 to 26 percent in 1986. Banks have now become the main channels for raising and distributing social funds. Banking has become the principal means for regulating economic operations.

--Following the expansion of China's economic relations with foreign countries, the closed-type economy is beginning to change into an open-type economy. China's policy of opening up to the world began to be implemented in Guangdong and Fujian. Subsequently, China opened 14 coastal cities, Hainan Island, as well as the Changjiang, Zhujiang, and southern Fujian delta areas. By 1986, it absorbed a foreign investment totaling 6 to 7 billion dollars, ran some 7,700 joint ventures, introduced 14,000 advanced technological projects, used foreign exchange facilities totaling \$9.2 billion, and borrowed a fund of \$20 billion from abroad. Its import trade increased by almost 200 percent over the period before reforms, and the proportion of its total export to its national income rose from 5.6 percent to 12 percent. According to the international concept, when the export volume and the net income from nontrade activities account for over 10 percent of the GNP, they constitute an open-type economy. Calculated by this formula, China's export volume and net income from nontrade activities accounted for 12 percent in 1986, indicating that its economy was beginning to shift from a closed to an open type.

Over the past 8 years, China's reforms had a profound impact on its economic development:

--These reforms have helped improve the major and minor structures. The expansion of the powers of enterprises and localities and the improvement of the market mechanism have overcome the major disproportion which had existed for a long time, and promoted the coordination between agriculture, light industry, and heavy industry as well as the coordination between the primary, secondary, and tertiary industries. The serious shortage of consumer goods is beginning to change for the better. With the exception of certain goods, the rationing of commodities has been abolished. The serious shortage of the means of production including coal and cement is beginning to ease up.

--These reforms have promoted the steady growth of the economy. The coordination of the big structure has laid a foundation for the steady growth of the economy. The change in the excessively centralized system and the decentralization of policymaking power have reduced the risk and danger brought about by mistakes in policymaking. The separation of economic interests has enhanced economic sensitivity and provided prompt information for the readjustment of policies. The reduction of administrative means and the application of financial and monetary means have helped prevent excessive economic upheavals. The introduction of the market mechanism has made up for the shortcomings and defects of plans. All this has played an important role in promoting a steady economic growth. In the annual growth of the gross social output value from 1952 to 1978, the maximum value of deviation from the average growth rate of 7.9 percent was 24.8 percent, whereas the negative increase was registered at 41.4 percent; from 1979 to 1986, the value of

deviation from the average growth rate of 10.1 percent was 6.4 percent at the highest and 5.5 percent at the lowest.

--These reforms have helped improve social economic results. The improvement of the economic structure and the steady growth of the economy have provided conditions for the improvement of social economic results. A comprehensive target has so far not been set for the appraisal of social economic results, but viewed from the targets for the profit and tax rates of output value, the rate of net output value, and the growth rate of comparable costs, economic results seem to have dropped since the institution of reforms. These targets indicate certain problems to a certain extent. But due to various incomparable factors, such as increases in interest rates, increases in depreciation rates, price rises in agricultural raw materials, exacting charges at will, and changes in the structure, these targets cannot fully reflect comprehensive economic results. The following indices on economic results have been provided by Wang Li of the quantity and models office of the structural reform institute according to a comparison between the gross social output (national income) and the gross social input (the net value of the fixed assets of the entire society, the possession of liquid funds, and the remuneration of laborers) on the basis of fixed prices in 1952:

1978	1979	1980	1981	1982
0.3411	0.3357	0.3300	0.3222	0.322
<hr/>				
1983	1984	1985	1986	
0.3219	0.3455	0.3627	0.3616	

As indicated by the above list, economic results during the economic readjustment period in 1981 were at the lowest level, and economic results gradually improved from 1981 to 1985. The economic reduction in 1986 led to a drop in the index of economic results. This basically manifests a gradual upward trend of social economic results since reforms were introduced.

--These reforms have helped improve the livelihood of the people. The per capita income of the rural people rose from 134 yuan in 1986 to 424 yuan in 1987, an increase of over 150 percent at an average annual growth rate of 13.2 percent. The per capita income of the urban people for living expenses rose from 316 yuan to 828 yuan, an increase of over 80 percent at an average annual growth rate of 8.4 percent. In addition, 60 million people in cities and towns have been assigned to work over the past 8 years, thus reducing the unemployed rate from 5.3 percent to 2 percent. About 70 million agricultural laborers have shifted to nonagricultural branches. The problem of providing enough food and clothing for the 1 billion people has basically been resolved, and they are beginning to advance toward a better standard of living.

## Main Problems in Development and Reforms

While fully affirming the achievements in reforms, we should also squarely observe new problems emerging in the course of China's economic development and reforms. Overcoming unstable factors that affect the sustained development of the economy and further improving the economic results of the country as a whole should be taken as points of departure in future reforms.

The main problems in the course of economic development are as follows:

First, basic industry is backward and is lagging behind the development of the processing industry. Following the rapid development of the processing industry, which is characterized mainly by the consumer goods industry, China's industrial structure is inclining toward consumer goods. Generally speaking, the increase in the proportion of the processing industry brought about by intensive processing and by the rise in extra values leads to a formation of a high degree of industrial structure. The main cause of disequilibrium in China's industrial structure is the backward nature of its basic industry. The scope of processing scope has expanded too much, therefore it has to rely on imports to support and develop its processing industry. During the Sixth 5-Year Plan, China greatly increased its import of raw materials, and the imports of steel, ethylene, aluminum, lumber, caustic soda, and soda ash increased at the rate of 25 percent or above annually.

The separation of the processing industry from the basic industry has been due to the decentralization of investments brought about by the decentralization of funds in the course of reforms. On the other hand, the prices of basic industrial products are low and the prices of processed industrial products are high. This irrational price system has not been fundamentally reformed. Furthermore, a new mechanism for raising funds has not been established. There is the need to increase the percentage of central funds, but it will not do for the central authorities to centralize all funds and monopolize construction projects, because the present economic structure is far more complicated than that during the First 5-Year Plan. The fundamental way out is to gradually raise the prices of basic industrial products and to absorb the funds of localities, enterprises, and the citizens by introducing the shareholding system, the method of issuing bonds, and other new fund-raising means.

Second, the traditional industry is backward and is falling behind changes in consumption demand. There are two situations: One is that the original structure of industrial technology cannot cope with the demand for excessive consumption; and the other is that although the traditional industry can meet the rational demand for consumption, it cannot make flexible responses due to restrictions by the price system. Unidirectional imports to cope with the demand for consumption have worsened the reliance of the national economy on imports, whereas these imports cannot help push forward the reform of the traditional industry; on the contrary, they hamper its development. As the export maintained by the traditional industry cannot offset the rapidly



expanding import, this has eventually expanded the adverse balance of foreign trade and brought about serious disequilibrium in foreign exchange.

Two problems merit study in China's economic reform:

First, since economic reform started, China has introduced the methods of simplifying administration, delegating powers to the lower levels, and allowing enterprises to retain more profit. This is necessary because it has helped change the excessively centralized system and enliven the economy. The problem is that the work of simplifying administration, delegating powers to the lower levels, and allowing enterprises to retain more profit cannot proceed if economic reform is not carried out more profoundly. For example, most people in enterprises say that they do not have adequate funds for development; the state has incurred deficits for some consecutive years, but the income of the citizens has increased by a large margin. Comparing 1985 with 1978, the distribution of national income for the government dropped from 35 percent to 26 percent, that for enterprises dropped from 10 percent to 7 percent, and that for the citizens rose from 55 percent to 67 percent. This indicates the following: 1) It is difficult for the state to continue allowing enterprises to retain more profit. 2) When enterprises' mechanism has not been further reformed and enterprises are still lacking the ability to restrict themselves, it is difficult to say whether enterprises will use the profit allowed for their retention to develop production; it is possible that the profit will become a new factor for the expansion of their consumption fund. 3) The development fund of enterprises cannot be resolved by means of allowing enterprises for a larger percentage of profit retention. Developing the money market, introducing bank credit—opening up a channel for direct capital accommodate apart from introducing a channel for indirect capital accommodation—the use of shares and bonds, and turning the consumption fund directly into enterprises' investment, all these are problems which require immediate settlement.

Second, since economic reform started, we have focused our attention on enlivening enterprises and improving the operational results of the microeconomy. This is improving economic results under the conditions provided by the resources we already have. The domestic market is large enough for us to bring into play China's strong points and characteristics. But in the past or at present, in the field of domestic investment or in introducing technology from abroad, we have not changed the practice or rushing headlong into mass action. This practice has produced low economic results. Improving the distribution of resources and rationalizing the industrial structure and enterprises' organizational structure are important problems in the next step of reform.

#### A New Understanding of Reform Work

China's economic operation should be profoundly reformed. Making a retreat will lead nowhere, and calling a halt will not solve any problem. There should be improvement in our reform work.

First, the problem concerning reforms and development.

Reforms should serve development and problems in the course of development should be resolved by means of reforms. Economic development involves rates, structures, and results. A rational structure is the basis for the coordination between rates and results. A rational structure will help maintain the steady growth of the economy and improve economic results. By saying that reforms should serve development, we mean that they should improve, optimize, and upgrade structures. That is, reform measures should be worked out according to the rationalization of structures. It is necessary to study the steps of reforms according to the different improvement stages of structures, and the achievements in reforms should be appraised according to the degrees of the rationalization and optimization of structures.

Second, the problem concerning reforms and results.

Our current reforms have played a positive role in improving economic results. But taken as a whole, China's economic results are still bad. They need further improvement. The improvement of enterprises' operational results should proceed from the improvement of the distribution of resources. We have devoted our efforts to better exploiting the initiative of enterprises, but we have neglected the management of new enterprises. A large number of enterprises which should not have been set up have been established. Contracting for projects or leasing out enterprises at a loss has wasted resources. Under the guidance of the policies on industry and undertakings, reforming the price, taxation, and financial systems should become a key point in the research into reforms. In improving the results of the distribution of resources, it is necessary to increase the amount of assets and to strengthen the management of basic undertakings. What is more important is to promote the reorganization of the reserve of assets and to encourage the circulation of major factors. The combination, merging, and bankruptcy of enterprises, the formation of an equipment market, the exchange of talented people, and the sales in enterprises should be studied as new subjects.

Third, the problem concerning targets and steps.

In fulfilling the targets of reforms, we are generally overanxious for quick results, and we have on many occasions put forward the fulfillment of the targets of reforms within a short span of a few years. It now seems that the fulfillment of the targets of reforms will take longer. The establishment of the basis and frame of a new economic system requires a longer time span than the period of the Seventh 5-Year Plan. But closer attention should be paid to the arrangements of reform steps.

It is necessary to work out the skeleton of an intermediate reform plan. However, it will be impractical to expect the thorough implementation of the plan. The plan should be constantly revised and improved in the course of practice.

Fourth, the problem concerning the "double track system."

It is impractical for a large country like ours to realize a sudden change in its economic structure by introducing a "large-scale, complete" plan or a "package plan." Reforms can only be carried out step by step. Reducing the old, expanding the new, and finally enabling the new to occupy a dominant position is a comparatively good transitional method, as it can promote reforms and minimize social upheavals. Therefore, we should apply the "double track system" to reforms.

Of course, the "double track system" will bring about various contradictions. This is a price we cannot avoid paying for reforms. Therefore management should be strengthened to promote what is beneficial and abolish what is harmful.

Fifth, the problem concerning the propagation of reforms.

The deepening of reforms will inevitably touch on the traditional concept, the traditional system, and the distribution of the traditional powers and interests. Extensively and profoundly propagating reforms and encouraging cadres and the masses to understand and support reforms has gradually become the key to smoothly carrying out reforms.

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CSO: 4006/741

## TIAN YINONG REPORT ON 1986, 1987 FINANCES

OW020039 Beijing XINHUA Domestic Service in Chinese 1026 GMT 23 Jun 87

[Text] Beijing, 23 Jun (XINHUA)--Report on the Final State Accounts for 1986

--Submitted on 16 June 1987 to the 21st Session of the Standing Committee of the 6th NPC

By Tian Yinong, vice minister of finance

Chairman, vice chairmen, and members of the NPC Standing Committee:

At the Fifth Session of the Sixth NPC held in March this year, Wang Bingqian, state councillor and minister of finance, submitted a "Report on the Execution of the State Budget for 1986 and on the Draft State Budget for 1987." The final state accounts for 1987 have been compiled. On behalf of the State Council, I now submit for your examination a report on the final state accounts for 1986.

Nineteen eighty-six was the beginning year for the people of all nationalities in China to implement the seventh plan [as received] for national economic and social development. Production, construction, and reform of the economic structure in the year maintained the fine situation of continued development, and new achievements were made in every field. On the basis of continued development of the national economy, the state revenues in 1986 exceeded the amount listed in the NPC-approved state budget. This, in terms of the allotment and providing of funds, met the needs of development of the planned production and construction and other undertakings in the fields of culture, education, science, and public health, and supported the successful adoption of various measures for reform of the economic structure. The budget for the year was well executed. However, due to many reasons, the year's state expenditures exceeded the budget by a fairly large margin, resulting in a deficit.

According to the formally compiled final state accounts of 1986, state revenues in 1986 totaled 226.026 billion yuan, or 105.5 percent of the budgeted figure. State expenditures amounted to 233.081 billion yuan, or 108.8 percent of the budget figure. The balance thus showed a deficit of 7.055 billion yuan. When compared with the estimates shown in the report we submitted to the Fifth Session of the Sixth NPC, state revenues showed an



increase of 3.996 billion yuan and state expenditures an increase of 3.971 billion yuan and the deficit was reduced by 25 million yuan. In accordance with the relevant regulations concerning the current financial management structure, the 7.055 billion yuan state deficit for 1986 was reached by including the localities' surplus of 2.363 billion yuan, which should be used by the localities as the regulations stipulate. As for the central government's deficit of 9.418 billion yuan, the State Council has decided to offset it with an overdraft from the People's Bank of China.

The total revenues in the final state accounts of 1986 included state revenues of 218.452 billion yuan, or 104.7 percent of the budgeted figure, and foreign loans of 7.574 billion yuan, or 137.7 percent of the budgeted figure. The various main revenues were realized as follows:

1. Various tax revenues amounted to 209.073 billion yuan, or 101.7 percent of the budgeted figure. Of these, revenues from customs tariffs came to only 91.9 percent of the targeted figure, because the imports of some higher tariff rate commodities were reduced and tax reductions or exemptions were adopted for some imported items. Revenue from income tax payments by collective enterprises amounted to only 86.6 percent of the budgeted figure as a result of rising production costs caused by price increases in raw materials as well as arrears in tax payments. All other tax revenues exceeded the budgeted figures. Of these, revenues from industrial and commercial taxes (including product taxes, increased value taxes, business taxes, resource taxes, salt taxes, and other taxes of this category) amounted to 101.4 percent of the targeted figure. Revenues from income tax payments by state enterprises reached 102.9 percent of the budgeted figure.

2. Revenues from enterprises were 4.204 billion yuan, or 126.7 percent of the targeted figure. These revenues came mainly from those enterprises that had not yet practiced the method of delivering profits in lieu of tax payments and a small number of enterprises that adopted the profit contract system. Because we miscalculated the income to be made by the local enterprises and the revenue target for them was set lower than it should have been, the actual revenue realized from them exceeded the target figure by a fairly large margin.

3. Receipts from state treasury bonds were 6.251 billion yuan, or 104.2 percent of the budgeted figure.

4. Funds collected for construction of key energy and transport projects reached 15.707 billion yuan, or 104.7 percent of the targeted figure. These receipts were collected from funds not included in the budgets of the various localities, departments, and units. Last year, the various localities, departments, and units saw a continued increase of their budgetary funds. At the same time, they actively contributed to the fund for construction of key energy and transport projects as required of them, thus supporting state construction.

5. Subsidies to enterprises to make up for their losses amounted to 32,478 million yuan, exceeding the budgeted figure by 17.6 percent. These subsidies, which are either compensated for or deducted from the financial revenues, have been deducted from the total revenue. Enterprise losses increased last year. The main reasons were the plunging petroleum prices on the international market, lower prices for primary products, and higher costs for foreign exchange conversion in exports, all of which affected financial revenue. Moreover, the increased prices of some raw and semifinished materials and the low standard of enterprise management added to the losses of many industrial and commercial enterprises.

6. Incomes earned from a settlement of what was due from the previous fiscal year totaled 6,005 million yuan. These incomes were receipts obtained by various localities and departments for the purpose of increasing revenues after plugging financial loopholes and clearing up what was due from the preceding fiscal year, and taxes and profits uncovered in general taxation, financial, and price surveys.

7. Revenue accruing from foreign loans totaled 7,574 million, or 137.7 percent, of the budgeted figure. The relatively large proportion of these revenues in excess of the budgeted figure stemmed from the 2.06 billion yuan in foreign loans for equipment at the Baoshan Iron and Steel Company and other units.

Fulfillment of the 1986 financial revenue plan was fairly good. This was inseparable from our adherence to the principle of carrying out reforms, opening to the outside world, and invigorating the economy, and from the positive development of the national economy as a whole. Last year saw a normal pace of industrial development, a steady development of the rural economy, and ample supplies of commodities on the markets. Compared to the preceding year, in 1986 the total national industrial output value rose 11.1 percent; the total agricultural output value by some 3.5 percent; and the total retail sales volume of commodities in society by 15 percent. Calculated on this basis, the domestic financial revenue exceeded the budget by 5.8 percent. In light of the development of production last year, there should have been more state financial revenue. However, the deficiencies in tariffs and the subsidies for deficit-ridden enterprises in excess of the budgeted figure absorbed some of the increases in revenues. After making allowances for these factors, the 1986 domestic financial revenue should have exceeded that of 1985 by approximately 8 percent, which is a substantial increase.

One thing that needs to be explained is that in order to promote reforms and invigorate enterprises, in particular large and medium-scale enterprises, the state in 1986 raised the depreciation rate for the fixed assets of some state-run enterprises; readjusted the regulatory taxes downward; adopted incentives in terms of taxes, profits, and subsidies toward some industries and enterprises; and enriched and improved the wage and price reforms of 1985, thereby leading to corresponding decreases in some revenues and increases in some expenditures. Some of these measures were incorporated into the budget, while many others were taken in the course of executing the budget.

Statistics show that in the execution of the budget, reductions in taxes and profit delivery and subsidy increases totaled more than 6 billion yuan. Although they led to temporary decreases in financial revenues, these measures, if viewed from a long-term perspective, are favorable to the development of construction and are needed for promoting economic development and increasing financial revenues.

Of the total expenditures in the 1986 final state accounts, the expenses disbursed from domestic funds totaled 225,507 million, representing 108.1 percent of the budgeted figure, and the allocations defrayed for capital construction from foreign loans were 7,574 million yuan, 137.7 percent of the targeted figure. Disbursements for major expenses from domestic funds are as follows:

(1) Expenses for capital construction totaled 59,608 million yuan, or 116.2 percent of the budgeted figure. Of this amount, the capital construction investment projected in the state budget was by and large controlled within the limit set in the budget. The actual amount of such investment was 100.5 percent of the budgeted figure. However, disbursements for capital construction from local reserve funds exceeded the budget by a rather big margin. The budgeted figure was 3.7 billion yuan whereas the actual amount was 110,363 million yuan. It is understandable that everyone wanted to do more in socialist construction, but from an overall point of view, too much locally financed and extra-budgetary investment in capital construction was a chief reason for the excessively expanded scale and overextended front of our capital construction work. We must firmly guard against this practice in the future.

(2) Funds used for tapping productive potentials and technological transformation, and expenses for trial-production of new products totaled 12,985 million yuan, or 208.1 percent of the budget. This amount far exceeded the budgeted figure primarily because many localities increased to a rather large extent their expenditures in this respect in order to accelerate the technological transformation and advance of their enterprises. Another reason was that due to the control over the scale of capital construction investment, part of the capital construction funds was diverted to tap productive potentials and carry out technological transformation—a practice that is considered irrational.

(3) Funds used for supporting rural production and for various agricultural operating expenses totaled 12.43 billion yuan, or 105.4 percent of the budget. This expenditure exceeded the budget because many localities increased their disbursements in this respect by using their reserve financial resources in order to make an appropriate increase in agricultural input. Another reason was that in view of last year's rather serious natural disasters, the central authorities increased the anti-drought, flood-prevention, and anti-flood appropriations in the course of implementing the financial plan.



(4) Operating expenses for projects of culture, education, science, and public health were 37,993 million yuan, equivalent to 106.4 percent of the budget. Calculated in terms of comparable items, this was 5,909 million yuan more than the preceding year, or an 18.7 percent rise. Of this, education expenses totaled 21,432 million yuan, or an increase of 3,016 million yuan or 16.4 percent over the preceding year, and expenses for science projects stood at 2,143 million yuan, an increase of 355 million yuan or 25.8 percent. The growth rates of all these expenses surpassed the rate of increase of regular financial revenue for the year. Last year governments at all levels, from the central government to local governments, attached great importance to the above-mentioned projects. While implementing the budget, they increased the expenses for these projects to a great extent. For example, to promote the training of teachers and solve the problems of dangerous classrooms in some middle and primary schools, a 200-million-yuan expense was added to the budget besides the already-budgeted 100 million yuan for training teachers.

(5) National defense spending was 20,075 million yuan, or 100.3 percent of the budget.

(6) Administrative expenses totaled 16,803 million yuan, or 116.9 percent of the budget. Among these expenses, those for public security, procuratorial, and judicial organs stood at 4,549 million yuan, or 121.3 percent of the budget. The primary reason for the excess over the budget was that expenses were increased in order to beef up the public security, procuratorial, and judicial work. As for other administrative expenses, the excess over budget was, on the one hand, due to the increase in expenses necessitated by the following objective conditions: Last year a number of graduates from institutions of higher learning and secondary specialized schools as well as military cadres were assigned to work in administrative units; there was an increase in the prices of certain office supplies and repair materials; and "phase-in payments" were made to adjust wages in the first half of the year. On the other hand, the personnel slots of administrative organs were not strictly controlled, and there were too many branch organs and too many promotions for their personnel. Expenses charged by guesthouses and hostels were too high. Some units have fairly serious feasting, extravagance, and waste problems. All these caused the increase in expenses. To tighten the control of administrative expenses and practice economy, the State Council recently approved and distributed a "Report on Control Over Administrative Expenses" submitted by the Ministry of Finance, and has decided to strictly control administrative expenses according to the budget and to instruct all administrative organs to put into effect a system of periodical auditing and supervision.

(7) Price subsidies totaled 25,748 million yuan, or 92.9 percent of the budget. The actual amount was less than the budgeted figure mainly because last year the work of purchasing grain, cotton, and cooking oil progressed comparatively slowly and the quantities purchased were less than expected, thus delaying the disbursement of some price subsidies.



The 1986 final state accounts indicated: Despite the fact that expenditures exceeded the budgeted figures a great deal, the state, through the distribution and use of financial resources, was able to ensure realization of the plan for 1986 economic and social development and develop the various projects in production and construction. In 1986, new progress was made in state capital construction, and the development of key capital construction projects was continuously accelerated. Notable achievements were made in quickening the pace in carrying out technical innovations in existing enterprises. A total of 96 large and medium-sized projects and 165 single items attached to large and medium-sized projects were completed and put into operation in 1986. A total of 42,000 projects for equipment replacement and technical upgrading were completed and put into operation. In 1986, continuous steady improvements were made in the fields of culture, education, science, and public health. The institutions of higher learning admitted 572,000 students in 1986 with a total enrollment of 1.88 million students, an increase of 177,000 students over 1985. The total number of hospital beds reached 2.3 million, an increase of 3.2 percent. The nation's finished scientific and technological research projects won prizes from the State Council departments and the people's governments in various provinces, autonomous regions, and municipalities directly under the central government. New developments were made in fields of culture, sports, television, radio broadcasting, and publication. Due to the essential subsidies and supplements to the wage system provided by the state, the living standards in both the cities and the countryside had improved in varying degrees in 1986 in the course of developing production. The average annual per-capita income for living expenses in 1986 reached 828 yuan, and the average annual per-capita income for a peasant family reached 424 yuan. When cost-of-living increases were factored in, the actual incomes showed increases of 13 and 3.2 percent, respectively.

When we recall the situation last year, we realize that in 1986 the state budgeted revenues and expenditures were in balance. Several months after the 1986 state budget was implemented, a situation where the flow of revenues began to slow, while expenditures increased rapidly, cropped up. At that time, it was estimated that there might be a fairly large deficit for the whole year. It was for this reason that the State Council held a nationwide meeting in June 1986 attended by all the governors in the country to discuss financial problems. Worried about the imbalance between state revenues and expenditures for the year, the meeting called on all departments and units from the central to the local level to re-examine their revenues and expenditures, try their best to curtail expenditures, and keep expenditures within the limits of revenues. When Minister Wang Bingqian made a report on the 1985 state final accounts at the 16th meeting of the NPC Standing Committee in June 1986, he also reflected on things as they really were and said that there would be a possible deficit in 1986 state finances. He put forward measures to increase revenues and strictly control expenditures. At the nationwide meeting on financial work held in July of the same year, the Ministry of Finance carefully analyzed the situation in balancing state revenues and expenditures for the first half of 1986 and the situation of state finances for the whole year. It set goals for various districts and departments to increase revenues

and control expenditures. In October, the State Council once again issued a circular, calling for efforts to conduct a mass checkup on tax revenues, financial affairs, and commodity prices. The aforementioned measures played a significant role in increasing revenues, controlling expenditures, and reducing deficit.

Why was there a deficit of 7 billion yuan in 1986 after all these measures were taken? On this question, we must sum up our experience, draw a good lesson, and make improvements in doing our work in the future.

First, we must strengthen our control and management over macroeconomy. Our deficit in 1986 was mainly attributable to the fairly large increases in expenditures in the course of implementing the state budget, in addition to revenue-related reasons. These increases in expenditures had surpassed our financial capabilities for the year. Financial issues manifest the existing problems in the economy. Over the past few years, we have scored remarkable achievements in carrying out economic reform, but the contradiction of society's total demand outstripping society's total supply has not yet been resolved. The situation of extra large investments in fixed assets and excessive growth of consumer spending, especially, has not basically changed. In 1986, the investments in fixed assets and consumer spending of state-owned units were increased respectively by 15.3 and 12.5 percent compared to 1985. Both exceeded the growth rate of the national income. At the same time, the economic efficiency of various enterprises was still not so ideal. Their production costs rose and losses increased. All these factors were directly or indirectly reflected in finance. On the one hand, they prevented the revenues from increasing, while on the other hand, they brought about excessive growth of expenditures, affecting financial stability and the balance. In the past, whenever deficits appeared in some years, they were invariably connected with excessive investments in capital construction and excessive consumer spending. Therefore, to solve financial problems, we must not pay full attention to financial affairs only. We should take into consideration the situation of our national economy as a whole and try to achieve an overall balance.

Second, we must make readjustments and take directive measures to reverse the excess decentralization of funds. After various reform measures and delegation of power to lower levels carried out in the last few years, a significant change in the structure of financial revenues and expenditures has taken place. Comparing 1986 to 1979, the percentage of state financial revenues in national income dropped from 31.9 to 25 while the percentage of nonbudgeted funds in national income rose from 13.5 to 21.3; the percentage of earnings of state-owned industrial enterprises delivered to the state dropped from 92.1 to 41.2 while earnings left at the discretion of enterprises rose from 7.9 percent to 42.2 percent. (This percentage would be 58.7 if repayment of loans before taxes were included. The amount at the discretion of enterprises is less after enterprises pay into the fund for the construction of key energy and transportation projects.) Currently, the financial revenues of the central government account for only about 50 percent of the financial revenues of the whole nation. This is way out of proportion to the central

government's financial burden. It is necessary to gradually readjust the structure of financial revenues and expenditures; reasonably raise the percentage of financial revenues in national income and the percentage of the central government's financial revenues in relation to the financial revenues of the whole nation; and establish a system and mechanism to effectively direct social funds toward reasonable investments in order to prevent the over-expansion of non-productive construction and curb the excess growth of consuming funds.

Third, we must strengthen financial management and tighten financial supervision. Management of revenues and expenditures has been somewhat lax in the last 2 years when our financial situation turned better. Financial problems such as evasion of taxes and wasting of expenses have increased. These problems have become quite serious in some localities. For example, many localities and departments have built numerous high-class mansions, halls, and other non-productive projects; the numbers of organs and personnel have increased excessively; and some units have engaged in the practice of doing things in a luxurious manner and spending lavishly. As for our work, the main problem is that we have not been strict enough in collecting and managing revenues, and have not strictly prevented undue use of funds. It should also be pointed out that, currently, it is quite common to see that, in the economic field, established laws are not strictly abided by, laws are not strictly enforced, financial discipline is not properly observed, and many people knowingly do things against established laws and regulations. Some enterprises and units just disregard the state's laws and regulations, evade paying taxes, wantonly add various fees to production costs, withhold state revenues, and carve up state properties. Some localities and departments act beyond their authorization to decide on reducing tax rates and tax exemptions, increase funds for special purposes, and raise the standards for subsidizing expenditures. Some departments and units lower enterprises' tax rates; exempt them from paying taxes; or decide without authorization to increase prices under the pretext of "reform and invigorating the economy," or "pooling funds for construction projects," and keep the revenues generated from price increases to enterprises or local authorities. Some units raise commodity procurement prices without authorization in order to increase exports. Still some units waste the state's money by using public funds to organize sightseeing tours or entertain and buy gifts for guests. All this not only decentralizes and wastes the state's financial resources, but also affects the economical and reasonable use of state's funds. This is something that needs to be treated seriously, and effective measures should be taken to deal with it.

Chairman, vice chairmen, and members of the NPC Standing Committee: More than 5 months of 1987 have passed. I would like to make here a brief report on implementation of the state budget in the first 5 months of 1987.

National economic development has been good in the first 5 months of this year. Total industrial production value increased 14.6 percent over the same period of expectations. According to statistics, domestic financial revenues reached 70.947 billion yuan in the first 5 months, fulfilling 31.8 percent of



the projected amount, 2.9 percent less than the same period of last year. Domestic financial expenditures was 63.193 billion yuan, fulfilling 27.3 percent of projected value, 8.3 percent down from the same period of last year. The account shows a favorable balance of 7.754 billion yuan. This shows that the tendency of declining financial revenues has not been reversed. On the other hand, the decrease in financial expenditures and the comparatively high favorable balance, according to initial analysis, are a temporary phenomenon. According to what has happened in past years, appropriations for major expenses are usually made in the latter half of the year. This means that both management of revenues and control of expenditures will be heavy tasks for us in the months to come. We must therefore continue to work hard, and must not treat things lightly.

In order to successfully implement this year's state budget and keep financial deficits within the limits specified in the budget, the State Council, based on the needs of current economic development and the actual implementation of this year's budget, has instructed all localities and departments to ensure that the current campaign to increase production and practice economy, and to increase revenues and trim expenditures is properly carried out. Plans designed to achieve this goal were out at a national meeting of provincial governors held in April. Currently, all localities and departments are taking vigorous measures to increase revenues and control expenditures. Considering that some of the state's measures this year to reduce revenues and increase expenditures will be mainly carried out in the latter half of the year, which will make it difficult to fulfill the state's budgetary tasks, we must strive to accomplish the following tasks: 1) We must ensure good work in increasing revenues centering on the campaign to increase production and practice economy, and to increase revenues and trim expenditures, and integrate this work with our efforts to further enterprise reform in order to ensure a steady increase in financial revenues. We should also work hard to improve the economic results of enterprises and reflect the results in increasing financial revenues. We should also work hard to improve the economic results of enterprises and reflect the results in increasing financial revenues. Large and medium-sized enterprises should promote various contract business responsibility systems on the basis of paying tax instead of profits to the state, and ensure that these responsibility systems will bring about increased production and revenues. 2) We must try to cut financial expenditures, put them under strict control, and ensure that all expenditures are kept within the limits specified in the state budget. In view of the fact that investment in capital construction projects financed with locally-raised funds and administrative expenses increased considerably the first few months of this year, the state has set control targets in these two areas in order to put expenditures under strict control. All localities and departments must ensure that their expenditures are kept within the set limits. 3) We will institute a strict budget responsibility system and a verification system. Since this year's state budget was approved by the Fifth Session of the NPC, we have set financial revenue and expenditure targets for individual localities and departments. All localities and departments must ensure that these targets are met and strive to exceed the revenue targets and keep expenditures well under the set targets. Performance in this respect should be used to assess



the economic results of individual localities of departments. 4) Central and local departments should exercise strict control over any additional expenditure and should no longer authorize any more projects that will reduce revenues or increase expenditures. They should also tighten the examination and approval of the use of reserve funds. If a region wants to use the unused portion of last year's budget, the portion must be within the approved amount. If a region's revenues last year exceeded the target of that year, it should make fewer or no arrangements for spending the extra money so that the money can be spent next year. 5) Taxes are the state's main source of revenue. To strengthen tax collecting, handle taxation affairs according to law, stop unauthorized tax exemptions, and guard against tax evasion or fraud, the State Council last April promulgated the "Decision on Enforcing the Tax Law and Discipline and Strengthening Tax Collecting," which is being implemented in all regions and departments. 6) To strengthen the supervision over financial matters and enforce fiscal and economic discipline, general inspection of tax and fiscal affairs and commodity prices will continue during the second half of the year. Any violation of fiscal or economic discipline must be seriously handled as soon as it is discovered, and the responsibility of leading personnel and staff members shall be investigated. If the case is serious, disciplinary measures shall be taken. Should anyone violate the law of the state, his legal responsibilities shall be investigated according to law. Presently the campaign to increase production, practice economy, raise revenues, and reduce expenditures is being carried out throughout the country. Ample facts have shown that the campaign has great potential and much can be done. We urge all regions and departments to work earnestly during the next several months to fulfill the state's 1987 budgetary plans by fully arousing the enthusiasm of people and cadres of all nationalities in the country to take part in the "double increase and double economy" campaign in a widespread and thorough manner.

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CSO: 4006/740

## CIRCULAR ON COMMODITY PRICES, WEIGHTS, MEASURES

OW011332 Beijing XINHUA Domestic Service in Chinese 0554 GMT 1 Jul 87

[Text] Beijing, 1 Jun (XINHUA)--The State Administration of Commodity Prices, the State Bureau of Weights and Measures, the Ministry of Commerce, the All-China Federation of Trade Unions, and the China Consumers' Association recently issued a joint circular, calling on various localities to develop activities of "trusting commodity prices, weights and measures" in an effort to maintain basic stability of commodity prices on the market and make positive contributions to developing material and spiritual civilization.

The circular said: The activities of "trusting commodity prices, weights and measures" is a good method to combine the practice of providing supervision within the various enterprises and the practice of providing supervision by the masses in society. It is a new way to strengthen control over commodity prices, weights and measures, to curb abnormal price increases, and ensure accuracy in weights and measures. The experience in various localities indicates that these activities could be carried out not only in commercial establishments, but also in industrial enterprises and undertakings and among individual businessmen and vendors. Full attention must be paid to basic-level enterprises in the fields of commerce, supply and marketing, grain production, medicine, foreign trade and others.

The circular pointed out: In selecting the units to develop the activities of "trusting commodity prices, measures and weights," various localities must maintain high standards, and set up a system to conduct checkups at regular intervals. Departments in charge of commodity prices, weights and measures, commercial establishments, trade unions and the consumers association must closely coordinate with each other, bring into full play the role of the administrative department in charge of this matter, and strengthen inspection, supervision and guidance in this regard. It is necessary to do away with formalism, while paying attention to actual results.

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CSO: 4006/741

## EXPERTS DISCUSS ECONOMIC STRUCTURAL CHANGES

HK070121 Changsha Hunan Provincial Service in Mandarin 0000 GMT 7 Jul 87

[Text] Our reporter (Liu Yafei) has learned from the annual meeting of the China Association for Studying Economic Structural Reform, which was held in Hunan, that as a result of 8 years of reform, China's economy is now changing from a natural and product economy to socialist commodity economy.

The experts held: This change is demonstrated in the following respects:

- 1) The number of products covered by state mandatory planning has declined from about 120 in 1984 to 60.
- 2) Materials under unified state distribution have been reduced from 156 in 1984 to 20. Commodities under planned management of the Ministry of Commerce have been reduced from 188 in 1979 to 23.
- 3) The proportion of construction capital coming from governing channels has been reduced from 77.6 percent in 1978 to 31.6 percent in 1986, while the proportion coming from banking channels has increased from 23.4 percent to 68.4 percent.
- 4) The commodity rate of industrial and agricultural commodities reached 63.9 percent in 1986.
- 5) The proportion of main production materials being sold by the enterprises themselves is rising all the time. In 1986, 32 percent of steel was sold by the enterprises themselves. For cement, the figure was 48 percent, and for coal, 25 percent.
- 6) The proportion of commodities for which floating and market prices have been instituted accounts for 65 percent of agricultural products, 55 percent of industrial consumer goods, and 40 percent of production materials.
- 7) The total sum of capital flow between cities in 1986 was 30 billion yuan.
- 8) The proportion of export volume in the gross national income has risen from 5.6 percent in 1979 to 12 percent in 1986.
- 9) By 1986, foreign investment in China totaled \$20.6 billion, and some 10,000 items of technology had been imported.

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CSO: 4006/741

## CHINESE INDUSTRIAL STRUCTURE, ORGANIZATION ANALYZED

Beijing JINGJI RIBAO in Chinese 5 May 87 p 3

[Article in column entitled "Probing New Theories" by Li Boqi [2621 3124 3305], Zhou Lin [0719 2651], Liu He [0491 7729], and Ling Dongliang [2651 2767 2733]: "An Analysis of China's Industrial Structure and Organization"]

[Text] In-depth studies of China's industrial structure and organization will help us discover where we excel in our economic development, and uncover crucial factors which hold back our economic development and prevent the reforms from progressing further, and help the country enact appropriate industrial policies.

#### I. Analysis of the Industrial Structure

Under the Sixth 5-Year Plan the country's industrial structure has changed for the better: the demand mix had a greater impact on the industrial structure; industry adjustment rate increased as the level of income rose; and the three major sectors, agriculture, light industry, and heavy industry, have become more proportionate.

From the point of view of the industrial development over the last 30 years, the overall pattern of industrial structure has improved; the historically irrational features deep within the industrial structure has improved; but there are no fundamental changes. The main manifestations are as follows:

1. Deterioration of performance of industrial structure: structural performance refers to economic growth and economic results attributable to structural factors: this is mainly measured by a performance surplus coefficient (the ration of net industrial output value to gross industrial output value [as published]) Under the Fifth 5-Year Plan the industrial surplus coefficient was 1.039, but under the Sixth 5-Year Plan, it fell to 0.986, which is 5.1 percent drop. According to experts, between the Fifth and the Sixth 5-Year Plan periods, about 90 percent of China's industrial growth was the result of increased investments in capital constructions and increased labor force, and structural factors (changes in the proportion of the sectors, and technological advancement) accounted for only 7 percent of the growth: in the developed countries, structural factors account for 50 percent of the economic growth--this is a shocking disparity.



2. Serious stagnation in the basic industries: during the early days of the Sixth 5-Year Plan, the country implemented a policy of "six preferences for light industries"; the processing industries maintained a high rate of growth; the peasants made more money; as a result, the domestic market expanded and further stimulated the processing industries; concurrently, the population shifted toward the non-farm sector, and speeded up the process of urbanization: all these factors exerted immense pressure on the basic industries, compelling them to keep up with, or even surge ahead of, this development--this implies a positive surplus coefficient (if the rate of increase in basic industries exceeds the rate of increase in society's total output value, the ratio will be positive; the reverse case will produce a negative coefficient). Throughout the Sixth 5-Year Plan period, however, the basic industries will adversely affect the long-term stable development of the economy.

3. Tendency toward homogeneity in industrial structure among the provinces, and tendency for industrial structure within the provinces to become "quasi-sophisticated": a survey of 29 provinces and cities indicates that there is a serious tendency for the industrial structure of the provinces and cities to become homogeneous: provinces which supply the resources and those which do the processing work are structurally indistinguishable; each fails to take advantage of its relative superiority as supplier of raw material or supplier of productive force. The provinces and the cities race to develop industries which they do not have any relative advantage; they cater to "advance" consumption goods like T.V. sets, refrigerators, automobiles and other "hot items." In many regions the industries do not have the technology for this type of productions; they are small and have little ability to create new products, but their products often seem sophisticated; the truth is, these industries are sustained by borrowing foreign currencies and raising product prices, and they cannot last. In economically advanced nations like Japan, when their economy is ready to take off, the leading sectors in different regions are already set to participate in regional division of labor; each sector is prepared to take advantage of its relative superiority in regional resources, technological repertoire, management skills, and the quality productions to generate a high rate of growth: we should learn from their experience.

4. Shortage of productive force amid idle capacity: today there are serious problems with shortages and stagnation in crucial links; if we look closely at the different trades and regions, we will discover that, at the enterprise level, there is stockpiling on the one hand and scarcity on the other hand, and there are shortages alongside surpluses--this condition is evident between sectors, between trades, and between enterprises, as well as within the sectors, trades, and enterprises.

5. Export trade remains dominated by primary goods: during the mid-course of the Sixth 5-Year Plan, the basic industries became stagnant, and there were shortages of raw materials, and parts and components: under the circumstances the processing industries had to rely on imports to sustain their high rate of growth, and this increased their need for foreign currencies. However, foreign currency earning situation was less than ideal, and although the volume of trade went up, foreign trade deficit continued to increase: among the export goods which earned foreign exchange, a large proportion were primary goods, and seems to be a growing trend.

It is inappropriate for a major socialist country like China to resort to increasing the export of primary goods to earn foreign exchange to sustain its economic development: we will be constrained by our own resources, and it is incompatible with our national development strategy: our future lies in promoting a modernized industrial structure.

6. Rural industrial structure is plagued by problems: since the Third Plenum of the 11th Party Central Committee rural industrial structure has improved, but major problems remain and should not be overlooked: (a) weakness in the agricultural material base, low technological standard, and inability to combat natural disaster and expand reproduction: out of the total arable land only 20 percent can guarantee stable yields despite drought or excessive rain; 30 percent has low-yield; as much as 500 million to 900 million mu of land are perennially hit by natural calamities; the annual staple crop yield fluctuates wildly; regional development is uneven; the country's investment in agriculture has tapered off in recent years, and accumulation of agricultural infrastructure is on the decline. Historically our per capita food grain [consumption] has always been below world average, and because our fishery and animal husbandry lag behind the developed nations, we must pay extra attention to food grains. At present the dilemma lies in the fact that diversifications have reduced the amount of arable land, but because there has been few breakthroughs in crop varieties, cultivation technique, and ways to combat natural disasters, it is not possible to increase yield on reduced acreage. (b) 61 percent of the township enterprises deal with mechanical, metallurgical, electrical, petrochemical, coal, and cement works; only 7.9 percent are in the food industries which make use of agricultural products; 12.5 percent are in textile, 1.7 percent in feed, and 1.3 percent in leather; most processing industries which make use of agricultural sideline products are concentrated in the cities. This structure does not make full use of the available resources, and it adds to the transportation problem. (c) China has a rural labor force of 370 million people, 300 million of which are strictly agricultural, and among these, 250 million are farmers; based on calculations, there were 100 million surplus workers in 1985.

Many scholars attribute the irrational structure deep within the industrial sector to the irrationality of the mechanisms which regulate the structural proportions because they prevent the industries from consciously adjusting the quality and volume of output according to demand conditions. This is correct, but we must go one step further, and integrate development with reform: the authors feel that at this stage, the failure to solve the industrial structural problem is attributable to the fact that the reform process lacks an industrial structure adjustment objective; and lacks proper measures to guide extra-budget funds; it is in need of a clear regional policy and a structural export strategy; it lacks proper measures for the optimum allocation of resources, and a policy to improve comprehensive results. All these deficiencies in turn are due to the lack of understanding of China's present phase of economic maturity and the significance of a rational industrial structure to the country's economic development, and consequently, this leads to the failure to enact clear industrial policies.

## Analysis of the Industrial Organization

We can carry the analysis of industrial structure further to the industrial organization level. Industrial organization refers to how key productive elements move, and combine with each other, within enterprises and between enterprises.

Since the reforms there has been positive changes in China's industrial organization; economic integrated bodies formed by different sectors in different regions have provided valuable insight into the flow of productive elements as well as industrial reorganizations. However, we must also notice that some problems still exist in industrial organization:

1. Industries are neither sufficiently centralized nor decentralized, therefore, there is little basis for specialization and cooperation: at present there are two major industrial organization trends among developed countries, one is centralized productions, that is, key productive elements are increasingly concentrated in the hands of the large specialized enterprises; two, decentralized productions, that is, key productive elements are scattered among the mini and micro enterprises which support the larger enterprises. These two trends make up the industrial organization network in the well-developed commodity economy.

There is a great disparity between conditions in China and the developed nations. The degree of industrial concentration or decentralization is largely determined at the time enterprises are set up. An enterprise may become larger over a period of time, but this is due mainly to outside investment rather than the flow of productive elements, or to reorganization. There are large enterprises in China, but they tend to be all-purpose plants rather than specialized plants, and the scale of their production is far below the level where there are economies of scale. Smaller enterprises too tend to seek all-around development: there are very few small enterprises and specialized micro industries, and there is little specialization and cooperation in key productive elements. The authors feel that while it is essential to stimulate enterprises through reforms as a way to increase productivity, the importance of stimulating enterprises through promoting specialization and division of labor must not be underestimate because it can produce distinctive results in improving overall performance.

2. Another serious flaw in China's industrial organization is the lack of innovation and technological repertoire: based on survey of 18 provinces and cities, the basic cause for the stockpile of consumption goods in 1986 was the technological gap between the enterprise's productive capability and the people's consumption preferences, and the inability of the enterprises to close this gap: this is basically due to the fact that funds for technological development are not always available, and that there is a tendency for the enterprises to duplicate each other's technological developments.

3. Enterprise's market behavior characterized by transience and passivity: enterprise's market behavior refers to the strategic moves it takes to maximize profit and enlarge market share: this generally includes its choice



of pricing, quality, production, investment, and distribution strategies. In the reform experiments to stimulate enterprises, short-term market behavior of enterprises cannot be ignored: abandoning long-term goals in favor of short-term profits is not conducive to enhancing creativity.

We should realize that there is a close link between short-term actions and the lack of initiative. Because streamlining the government and devolving power are easier said than done, enterprise behavior basically are still conditioned by administrative interventions: enterprise pricing is ultimately decided by the government; their investment, market share, and product quality are based on the policies and conducts of the various governments and ministries. Put in this passive position, there is no room for enterprise's own strategies or plans. Based on survey of 18 provinces and cities, we can clearly discern the logical relationship between the shift in the government's investments to smaller, and light-industry type, enterprises and the short-term actions taken by enterprises.

4. The coexistence of infant enterprises and old enterprises: according to theories on enterprises life cycle, all enterprises must go through a natural "physiological process" of birth, growth, maturity, and death. The birth and growth stages are the infant period of an enterprise, and it ages as it approaches its final demise: both infancy and old age are relative to the enterprise's ability to compete in the market, and its ability to create. Infant enterprises and industries must be protected; old enterprises and industries should be eliminated in due course: only in this way can the economy remain vibrant. One peculiar characteristic of China's enterprises is their embodiment of the dual identity of infancy and old age: many enterprises startup with old technologies, old products, and old management techniques: they are "old before their times," and they are neither competitive nor innovative; they are a waste of resources. Those enterprises in this environment: obsolete facilities and technologies have become a serious problem.

Irrationality in industrial organization is ultimately reflected in the stocpiling of resources, and the only way to rationalize industrial organization and industrial structure is to solve the problem of the flow of key productive elements. Perfecting the mechanisms which regulate the flow of key elements is a long process in itself, but we cannot wait until all other conditions are perfected before tackling this problem; it seems that as in the analysis of industrial structure, the analysis of the irrationality of industrial organization cannot stop at the crude conclusion of uncovering the root causes, we must be even more specific.

The above problems in industrial structure and industrial organization are the root causes of the irrational economic structure of China's industries and her failure to generate a favorable economic environment; they in turn are caused by problems in the allocation structure generated by China's traditional system, and by the shift in the construction policies of the past 30 years. Today planting a firm foothold on reforms and promulgating reasonable industrial policies are ways to rationalize the structure and optimize distribution of resources.

12986/12951  
CSO: 4006/691



## INVIGORATION OF COMMODITY CIRCULATION URGED

HK080901 Beijing ZHONGGUO JINGJI TIZHI GAIGE in Chinese No 5, 23 May 87 pp 4-6

[Article by Minister of Commerce Liu Yi (0491 3015): "Carry Out Reforms in Depth, Invigorate Commodity Circulation"]

[Text] In terms of the current situation, the reform of the commercial structure has four aspects. They are the readjustment of the commodity purchasing and marketing policies and price policies, the reform of society's commercial structure and circulation patterns, the reform of commercial enterprise management, and the reform of the commercial administration and management structure. Relatively independent, these reforms form an integral whole, with one promoting and conditioning the other.

## I.

The principles and policies pursued since the 3d Plenary Session of the 11th CPC Central Committee, "the Decision of the CPC Central Committee on Reform of the Economy Structure," and the CPC Central Committee's five No 1 Documents are the guiding principles for the reform of the commercial structure. In the last few years, following these principles, organizations engaged in the commercial sector have paid close attention to the reform of the state monopoly of purchase and marketing and to the reform of state-owned wholesale commerce and the transformation of supply and marketing cooperatives into the direction of being run by the people; offered comprehensive services and developed diverse economic sectors; extended or delegated more power to lower levels as well as reformed enterprises' methods of operation and their internal management to invigorate the enterprises; reduced the number of commodities placed under planned management, expanded the use of regulation by market mechanisms, and developed lateral association; and established trading centers and wholesale markets, brought the role of key cities into play, and made possible the use of economic levers. Being a systems engineering undertaking, the reform is quite difficult. We have not yet worked out a complete blueprint for a commodity circulation system and commercial management pattern with Chinese characteristics and thus basically had to look carefully before taking each step. The repeated reversals cropping up in the course of reform in regard to policy provisions have a certain

impact on the enthusiasm of the lower levels for reform. In terms of the current situation in commodity circulation, the readjustment of interests of the various links in the farm and sideline produce circulation have not yet been carried out well; the macroeconomic control and management rules and regulations of the circulation of manufactured goods are being explored; the combination of responsibility, authority, and benefits in enterprise management remains loose; the enterprises have not yet been adequately invigorated; and the commercial administrative structure and the functions of commercial administrative departments have yet to be further reformed. Hence, it is unavoidable that some reform measures have failed to be fully implemented and there were some "half-completed" projects that got half the result with twice the effort. Therefore, the emphasis of deepening the commercial reform must be centered on the invigoration of wholesale, retail, and service enterprises. Great efforts should be devoted to appropriately separating ownership from management power, rationalizing policies, improving management, adopting more flexible methods of operation, and to changing the face of enterprises so that they can meet the requirements of the new situation.

To smooth out the circulation of manufactured goods, it is necessary to conduct reforms and gradually improve the wholesale system. Otherwise, it will be difficult to meet the requirements of the new market and develop new commercial forms. The reform of the wholesale system is aimed at invigorating state-owned wholesale enterprises and enhancing their competitiveness to bring their strong points into fuller play rather than weakening their position and role in circulation. The central task of the reform of state-owned wholesale enterprises for this year is to develop new wholesale forms and modes consonant with lateral circulation, including agency and brokerage businesses and at the same time, to explore ways of designing a wholesale network.

In reforming the circulation of farm and sideline products, we should proceed from the basic needs of 1 billion people in our country and the current production situation of farm and sideline products. Under the guidance of the policy of adhering to opening up to the outside world and invigorating the domestic economy, we should introduce guided regulation by market mechanisms among a small number of major commodities vital to the national economy and the people's livelihood and to the supplies of goods necessary for the state to keep the market stable and should pay close attention to the coordination and management of circulation channels. In light of the characteristics of the production, circulation, and consumption of different farm and sideline products, efforts should be made to develop new forms of transportation and sale and new methods of operation. Supply and marketing cooperatives should vigorously develop the agency system and offer more serialized services to promote production and invigorate circulation.

As far as the reform of prices in the circulation sector is concerned, at present, on the one hand, it is necessary to bring the role of market mechanisms into play, to loosen controls over prices as objectively required, to set policies independently, and to create conditions for a fair and equal competition, and on the other hand, price readjustments are

considerably subject to the capability of the state and the people to withstand strains. These contradictory circumstances determine that the reform of the price system can be but a process of gradual development. Therefore, it is necessary to uphold the reform and to ensure the reform will move ahead steadily. In the last few years, price reform has become a topic widely discussed by the people. We should make a concrete analysis of this state of affairs. Normal price readjustments and deregulation should be maintained; and some experiences, both positive and negative, gained in this respect as a result of our policy flaws and the reform conducted not at an appropriate time should be seriously summed up; and the problem of price violations committed by some enterprises effectively corrected. As for price reform, the commercial departments should persist in using the already decontrolled prices of medium-size and small farm implements, small commodities for daily use and service charges in the catering industry, really give enterprises the power to set prices to enable them to fix their own prices according to state policy regulations and at the same time, strengthen supervision, inspection, and management. Efforts should be made to gradually readjust commodity price differences, including quality and seasonal price differences, and to effectively implement the principle of high prices for high-quality products and low prices for low-quality ones. Attention should be paid to the macroeconomic guidance and regulation of the decontrolled prices of farm and sideline products. Loosening controls over prices does not mean washing one's hands of the business. We should establish a necessary price regulatory system to avoid drastic price fluctuations and sharp ups and downs in production and to safeguard the interests of the producers and consumers.

Through several years of reform in the management of commercial enterprises and their services, great changes have taken place. The service quality of the commercial sector has been improving. Especially after the enterprises implemented the contract and leasing systems and transformed ownership patterns, the results in this respect have become more noticeable. However, there is a gap between our views on and the degree of society's acceptance of the above issue. People from all sides concerned have voiced frequent criticisms and the employees also have complaints against it. It must be acknowledged that the current enterprise management level is low, and service quality is generally poor. The reasons for this state of affairs are multi-faceted. We should foster a conviction of being firm in reform and carrying out reform in a gradual way and in particular, when the reform suffers reversals, we should continue to find ways out as the reform progresses. Running an enterprise well is a long-term task that cannot be accomplished overnight. The central task of the economic structural reform is to invigorate the enterprises. The reform of enterprise management is directly related to the improvement of service quality. Therefore, keen attention should be paid to the reforms in such areas as the management of large and medium-size enterprises, the transformation of supply and marketing cooperatives into being run by the people, the introduction of a leasing system among small enterprises, and the linkage of efficiency and distribution as well as that of service quality and bonuses in accordance with the principle of separation of ownership from management power to mobilize the enthusiasm of the enterprises and their

employees. Through reform, we should base enterprise management and commercial service quality on a high level of spiritual civilization and scientific management.

## II.

Developing a planned commodity economy, implementing the policy of reform, opening up, and economic invigoration, and establishing a commodity circulation pattern with Chinese characteristics are a new undertaking. Only when the ideas and concepts not in congruity with the requirements of the new situation are transformed can we be bold in conducting reforms and exploration and in opening up new prospects in work. Putting the commodity economic concepts which need special discussions aside, here I would like to mainly discuss my views on three questions of commercial administration transforming the concept of its functions, commercial enterprises transforming the concept of bureaucrat-merchant work style, and the employees engaged in the commercial sector transforming the concept of "everybody eating from the same big pot."

Under the different conditions of the past, commercial administrative departments at all levels completed the tasks in their work using the authority and means entrusted to them by the state. While making exploration in the great cause of building socialism with Chinese characteristics and conducting the economic and political structural reforms, we should also reform the commercial management structure and functions. Commercial administrative and managerial departments are part of government management and organs of state power. They should orient their work to the needs of society's commerce, exercise their government functions, make good use of various means of the state directing commercial behavior, separate government from enterprise behavior, and combine direct and indirect management. Of course, reform has a process of development. The two behaviors will inevitably intersect each other for a time. However, we must be clear about the direction of reform. In this way we can consciously and firmly make explorations into reform.

Commercial enterprises of all types must transform the concept of bureaucrat-merchant work style and foster the idea of competition on an equal footing. Because of historical reasons, the masses of people view state-owned commerce and supply and marketing cooperatives as government organs for purchasing and marketing commodities. Moreover, commercial enterprises have for a long time conducted their operations using government behavior in some aspects, thus handling things in a rather serious bureaucratic way and they are monopoly-oriented. In the new situation in which the functions of the government are being gradually separated from those of the enterprises and multi-channel operations are developing day by day, if the concept is not transformed and the methods of operation are rigid, we will find ourselves in a quite passive position. State-owned commercial enterprises, supply and marketing cooperatives, and commercial enterprises of the other sectors are all independent economic entities. They should



carry out their business activities in accordance with their own conditions. The leading position of state-owned commerce and supply and marketing cooperatives should be embodied by opening up more avenues in operation. State support will remain in the future but, with the exception of special policy regulations, the enterprises should carry out their operations themselves through competition on an equal footing.

The employees engaged in the commercial sector should transform the concept of "everybody eating from the same big pot," enhance the sense of being the masters of the country, and cultivate an enterprising attitude. Egalitarianism is quite detrimental to arousing the employees' enthusiasm for working hard for the best. What is more, some employees show some reluctance to part with the practice of "everybody eating from the same big pot." Although the existence of egalitarianism is related to the question of the bare welfare insurance, practice has proved that even egalitarianism of a higher level is also in no position to arouse the employees' enthusiasm and to bring people's strong points into play. Only when the concept of "everybody eating from the same big pot" is eliminated and the management system of rewarding the diligent and good and punishing the lazy and bad is established and continued can the quality of the ranks of employees and service quality be improved continuously.

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CSO: 4006/797

## FUNCTIONS OF SOCIALIST CITIES DETAILED

HK090740 Beijing ZHONGGUO JINGJI TIZHI GAIGE in Chinese No 5, 23 May 87 pp 8-10

[Article by Tong Dalin (4547 1129 2651): "The Basic Functions of Socialist Cities"--passages in slantlines published in boldface]

[Text] In recent years a number of "star" cities have risen rapidly in China. Many cities are carrying out economic structural reform on a trial basis. Some cities are probing into their strategy for development. The functions, positions and role of cities have become issues which attract people's close attention.

For a long time in the past, cities generally assumed an appearance of commercial and consumer cities. After the liberation, industries, heavy industry in particular, were concentrated in cities. Therefore, various kinds of defects in the economic life of cities have occurred, as have unhealthy circles in the economic operations of cities. In particular, the phenomenon of "seeing only material factors to the neglect of human ones" was very serious. In urban economic construction we have always only paid attention to investing in fixed assets, the scale of capital construction, the importing of facilities and technology, and so on. But we have neglected the minimum living conditions, working conditions and rights to education of laborers.

People have talked a lot about helping cities free themselves from various difficulties. Now the more common view is that great efforts must be made to help cities "make up a missed lesson" in terms of their basic facilities. In addition, the multi-functional issue of cities should be stressed.

What then are the basic functions of socialist cities?

We cannot fail to mention Lenin's famous viewpoint in this regard.

On the first anniversary of the Russian October Revolution on 7 November 1918, Lenin delivered a speech at an unveiling ceremony of a monument of Marx and Engels. He said: "Landlords, the exploiters of the old times, exploited and plundered those dispersed and foolish serfs. However, capitalists, the exploiters of new times, encounter the advanced troops

of the oppressed masses, namely industrial workers of factories in cities. Factories have linked them together, urban life has educated them, their joint struggle in strikes and revolutionary actions have steeled them." In other words, cities of capitalist societies linked, educated and steeled a powerful and advanced contingent of industrial workers, so that the contingent became a leading class of the proletarian revolutionary movement. This was a great contribution made by modern cities in the process of the social development of mankind.

Now the cities of our socialist society should also utilize this great basic function. In other words, they should link, educate and steel a powerful and advanced contingent of laborers armed with modern knowledge so that they will become a main force in socialist construction and the struggle for various reforms.

What we mean here by laborers who have mastered knowledge are laborers with modern knowledge, who have further merged physical laborers with mental laborers--revolutionary, better educated and more professionally competent workers, peasants, cadres, and personnel in various trades and services, experts in various fields, scholars, and so on.

Socialist enterprises are integrated bodies of laborers. In the process of developing new productive forces, laborers are the subject, whereas the means of production is the object. In a socialist society, the subject (laborers) uses the means of production (object) to create wealth for society. This is a basic Marxist viewpoint. This basic viewpoint is a starting point and the underlying objective for the development of a socialist economy.

The subject of a socialist city is also laborers. The basic function of a socialist city is to link, educate and steel all laborers so that they mobilize their enthusiasm, creativity and wisdom.

With these functions, what are the characteristics of socialist cities?

/The first characteristic should be "human brains plus computers."/

What we mean by "human brains" here refers to the enthusiasm, creativity and wisdom of laborers. The so-called "computers" is a term for high technology, new industries, and traditional production which has experienced technical reform. Without computerization there will be no modernization. However, "computers" are created by "human brains." They are mastered, controlled and administered by "human brains." "Human brains" are always primary. In other words, laborers with modern knowledge plus modern science and technology are the main symbol of modern society.

Various countries in the contemporary world are facing a new challenge in high technology and new industries. To take on the challenge some countries have implemented good education as a main countermeasure. Some countries have taken specialized training in high technology for laborers

as a strategic measure. Some people believe that in the future various countries will regard education as the primary strategic asset in striving for supremacy in the world. All these views are unique.

Therefore, modern cities should have a comprehensive system for modern education. A modern educational system is not only a basic educational system for school education (from kindergarten to universities), but also a system for providing all laborers with various kinds of professional training. It should also include socio-cultural system which has great influence on education, including television, broadcasting, films, newspapers, magazines, books, museums, exhibitions, scientific and technical stations, cultural halls, and various kinds of cultural and artistic activities, and so on.

Providing various trades and services with professional training is a strategic task of our present city work. Compared with some cities in developed foreign countries, the greatest weakness of our city work is that our scientific administration and management is very poor. In a certain sense, the administrative and management work of our cities and enterprises is still directed at a natural economy, or a self-sufficient and semi self-sufficient supply system. Therefore, our city work should take professional training for various trades and services as its top priority task.

With regard to this point, we should admit that leaders of our cities have not yet fully understood it.

An article published in the U.S. NEWSWEEK on 10 March 1986 pointed out: In Japan, competition is very keen, workers and staff members attach importance to their studies. To satisfy their demand, factories and enterprises spend several million U.S. dollars on training and planning every year. In a certain sense, education has become a secret of the "economic miracle" of Japan.

At present, the key to straightening out our general mood in society lies in establishing a practice of respecting laborers. First of all, we should start by respecting teachers and doctors. After that, we should develop the practice and respect laborers in various trades and services. Since ancient times students have respected teachers. To establish a new mood in society we should start by respecting teachers. Wherever students meet their teachers, they should show their respect in one way or another. In particular, working personnel and leaders of our party, government and army should respect teachers and attach importance to education. Teachers should always be treated with respect. In the process of implementing the policy toward intellectuals, we should, first of all, thoroughly implement the policy toward teachers. We should show great concern for teachers' minimum living and working conditions and conscientiously solve their problems.



/The second characteristic of socialist cities should be to rely on a large number of socialist entrepreneurs and industrialists to run our socialist enterprises well, and to continuously improve the structure of our enterprises and commodities./

If a city or enterprise is run by outstanding entrepreneurs and industrialists, they can open a new market both at home and abroad. They can seek native resources, or resources located in other parts of the country. They can also seek resources located in remote areas, or even abroad. They can import the most suitable new technology and new facilities. They can arouse the enthusiasm of laborers. If their cities or enterprises lack funds, they can raise them everywhere, or even take a risk and borrow money. When there are serious telecommunication, transportation, energy, water, ecological, and other problems, they will try to solve them by every possible means... In the final analysis, all this shows that they excel in management and administration. Entrepreneurs and industrialists are, first of all, excellent and outstanding personnel who are good at management and administration.

A modern and famous city should, first of all, be represented and symbolized by a great number of well-known entrepreneurs and industrialists.

To assess the achievements of a city, we should, first of all, look at the fate of its entrepreneurs and industrialists. Whether the city can wholeheartedly rely on, take good care of, support and help them, free them from anxiety, solve their difficulties, redress their injustice, and create a good environment for their growth and development is a sign which demonstrates their economic rise or decline, or the success and failure of reform.

In foreign countries, some researchers of economic development believe that what developing countries lack most are entrepreneurs, rather than capital and facilities as the Keynesian school maintains. It is because a developing country can borrow capital when it is in insufficient supply. Without entrepreneurs nobody will do organizational and administrative work even if the facilities are available. Even if capital is available, nobody can use it. In a word, the existence of entrepreneurs and industrialists is more important than having sufficient capital.

/The third characteristic of a socialist city is that it should have intelligent and capable economic administrators who are good at readjusting production, distribution, exchanges (circulation), consumption and various economic levers--taxes, interest rates, exchange rates, and others--through market competition both at home and abroad to ensure a benign cycle of the entire commodity economy./

While grasping the economic work of cities we should not consider production alone. We should also encompass distribution, circulation and consumption because an economic entirety consists of four links. Only by combining these four links organizationally can we ensure a benign economic cycle.

Here, we should clarify a problem concerning consumption. We should know that: 1) Consumption (including consumers' consumption and production consumption) signify needs. Needs are the motivating force and the aim of production. 2) We should not equate consumption and waste. Excessive waste in capitalist societies is a sign of crises. If we do not dare talk about necessary consumption, it will be impossible for us to develop production. 3) With regard to the distribution of national income, there should be a stable and proper ratio between accumulation and consumption. 4) Consumption should be guided and organized. It is a problem of primary importance to organize well the market consumption of a city.

When we mention market, we know that there is a problem with prices. Here, we only intend to talk about the problem of the price of consumer goods for daily life. Not long ago we freed the prices of most consumer goods for daily use. Their prices are now determined by "market demand." What is the situation now? It seems like a story of "Lord Ye's love of dragons." In ordinary times we often talk about doing things according to economic laws and the law of value. However, once a true "law of value" situation occurs many people become confused. What is the law of value? When there is an abundant supply of goods the price is cheap. When the supply is meager the price is high. The facts and principles are simple. In the past what did we do when the supply was insufficient? We issued coupons and people formed lines in order to buy these goods. Although the price was fixed it was difficult to buy these goods. Now we emphasize "fixing price according to market demand." Sometimes the supply is certain things is sufficient, but sometimes it is meager. Sometimes they are cheap, but sometimes they are expensive. These fluctuations are normal. Of course, if these fluctuations are too drastic, and cause chaos in the market, they are not allowed. Under these circumstances, administrative orders are needed in order to control and interfere in the market. How should we treat price fluctuations in the market? In a capitalist society the relationship between supply and demand is spontaneously readjusted through market competition. However, since our market competition is based on public ownership, it is obvious that the competition can be properly organized by the economic departments of the government. This economic organizational work is absolutely necessary. To control and regulate the market we should rely on various economic levers, including credits, taxes, wages, and so on.

In the economic departments of the government we should train a number of outstanding economic managers. Their tasks in market competition should be to use various economic levers well in order to enliven the market in accordance with the law of value, and they should make efforts to form a unified socialist market system for the whole country (including a market for consumer goods, a market for the means of production, a market for technology, a market for labor services, a financial markets, and so on).

/The fourth characteristic of a socialist city is that in the process of beautifying the city, efforts should be exerted to enhance the cultural and artistic quality of laborers./

A number of cities in our country and their surrounding areas are surrounded by famous scenic spots, cultural relics and beautiful natural scenery. However, we particularly hope that our great contemporary academic, literary and art masters and craftsmen, as well as new stars and future experts coming to the fore in the academic, literary and art circles will carry out their new literary and art creation, and academic discussion for our socialist cities. Without its unique and beautiful environment and artistic style, and a number of noted figures in the academic, literary and art fields, a city will pale into insignificance. Socialist laborers should have a high level of cultural and artistic quality. We should not only get rid of poverty, but also overcome ignorance.

/The fifth characteristic of a socialist city is that it should have a leadership stratum which consists of a number of new political activists./

Politics is a crystalization of the economy. Some important economic policy decisions are actually political policy decisions. The shifting from "taking class struggle as a key link" to modernization throughout the country is the greatest political and strategic policy decision. The formulation of a number of specific policies should consider the vital interests of the broad masses of people. This is not merely an economic problem. It is also a matter of political significance.

Therefore, to grasp well the systematic reform in cities (including the economic, scientific, technical, educational and political reform), the party leadership work in cities should be greatly changed. In changing, we should, first of all, form leadership groups consisting of new political activists and reformists.

--They should have certain Marxist qualities. In particular, with regard to some important theoretical problems, they should have the courage to boldly explore them.

--They must have broad strategic vision to face modernization, the world and the future.

--They must have a strong idea of developing a socialist commodity economy, and all of their work should be centered on the basic task of developing the productive forces.

--They should stand together and share a similar fate with laborers, entrepreneurs, industrialists, scientific and technical workers, cultural and artistic workers, academic researchers, and the broad masses of the members of the reformist contingent.

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CSO: 4006/797

## PROGRESS OF ENTERPRISE REFORM REVIEWED

HK070701 Beijing ZHONGGUO JINGJI TIZHI GAIGE in Chinese No 5, 23 May 87 pp 19-21

[Article by Yin Guanghua (1438 0342 5478) and Jia Heting (6328 0735 0080):  
"A Review of and Prospects for Enterprise Reforms"]

[Text] China's urban economic structural reform is in its 9th year since the 3rd Plenary Session of the 11th CPC Central Committee. We have always regarded the promotion of enterprise vitality as the key link in reforms, and a big stride was made in this respect over the years. To review the course taken in enterprise reforms, to summarize experiences, to analyze problems, and on this basis, to study and to propose our ideas for the second-step enterprise reforms will be very helpful as well as very necessary.

## The Progress and Results of Enterprise Reforms

The freedom of enterprises in their independent management has been increased. Enterprise reforms took off with greater freedom given them in decision making. Over the years the state has promulgated around 100 stipulations on greater freedom for enterprises, with the due responsibilities, limits of authority and interests of enterprises initially made explicit. In planning, for example, the items covered for mandatory production plans issued to enterprises by the State Planning Commission were cut back to 60 from 120 in 1980, and the enterprises can arrange their production plans on their own based on market demand after they fulfill mandatory quotas. Regarding purchases and marketing, the varieties of materials earmarked for unified distribution by the State Bureau of Materials and Equipment have been cut back to 26 from 256 in 1980. Enterprises can purchase raw materials through the market and sell their products above the prescribed quota through the market on their own. In addition, negotiated prices and fluctuating prices are allowed within a certain scope. Statistics showed that by 1986 the proportion of steel product sales through enterprises' own channels accounted for 30 percent of the sales volume, cement for over 40 percent, and the sale of coal under unified distribution through such channels for about 25 percent.

The distribution relations between the state and the enterprise, and between the enterprise and the workers and staff have been readjusted. In order to change the situation of enterprises eating from "the



big pot" of the state, the state has successively implemented such measures as setting up enterprise funds, profit retention, fixed profit quotas, industry wide contract responsibility for input and output, and the replacement of profits by taxes; the last was initially determined as a basic form. For the past few years the retained profits of enterprises have gradually increased, and the volume of the per capita profits retained by state-run enterprises increased to 799 yuan in 1985, from 178 yuan in 1979. The depreciation rate of the fixed assets of industrial enterprises rose from 4.2 percent in 1979, to 5 percent in 1985. The capabilities of industrial enterprises in self-transformation and development have somewhat improved. To change the situation of workers and staff eating from "the same big pot of the enterprise," we have instituted the economic responsibility system in various forms. By 1986, 20 percent of the industrial enterprises had implemented the system with the total payroll linked with various indices for economic results on a floating basis. At the same time, reforms have also been carried out in the distribution system inside enterprises, with the personal income of the workers and staff and the economic results of the enterprises closely linked with the work results of the individual. This has mobilized the initiative of the workers and staff. During the period of the "Sixth 5-Year Plan" the average wage of the workers and staff rose by 51.1 percent, with an average annual growth rate of 4.2 percent after deducting the price factor.

An important step has been made in reforming the labor and personnel system. Regarding labor employment, multiple forms and channels have been adopted, and the labor contract system has been spread step by step. In 1986, the number of workers under the contract system accounted for 5.18 million. The selection of enterprise leading cadres has started to change in direction from appointment to election or invitation to the posts. At the same time, enterprises are now authorized to employ all categories of qualified people in public and to fire those workers and staff who violate discipline. An overall social arrangement for retirement and labor insurance has been implemented on a trial basis in some localities.

The director (manager) responsibility system has spread in an all-round way from an experimental basis. Between 1978, when the director (manager) responsibility system under party committee leadership was first implemented and 1986, when the director (manager) responsibility system was implemented in an all-round way, the lack of separation between the party and the government and the separation of authority from responsibility has gradually changed. With the position of the director at the core of the enterprise established, the director (manager) is now able to take full responsibility for the enterprise and to play the central role. Many localities have also implemented the system under which a director is responsible for fulfilling set quotas during his term of office, and also the audit system for directors leaving office, in order to complete and perfect the system of the director (manager) assuming full responsibility for production.

Diverse economic and operational forms have been developed. In recent years, under the precondition that the dominant role of ownership by the whole people economy is guaranteed, we have developed the urban and rural collective economy actively, and the private economic sector appropriately. In the 1985 national gross industrial output value, units under ownership by the whole people economy accounted for 70.4 percent, and the collective economy 27.7 percent, and the private economic sector together with other sectors 1.9 percent.

The lateral economic ties between enterprises have developed vigorously, and the trend is still on the ascendant. In recent years, the lateral economic ties have developed in breadth and depth in an all-round way. In 1986, there were 6,833 industry-related economic combines at and above the county level throughout the nation, involving a volume of 11 billion yuan in investments and the participation of 15,740 enterprises. At the same time, a number of huge enterprise groups with substantial financial resources, a remarkable scope and economic results have emerged in succession. At present, the separate plan listing of three major enterprise groups is being implemented by the State Planning Commission.

In sum, exploration has been conducted in many areas of enterprise reforms. Their orientation is correct and the results are remarkable. Enterprises have begun to break through the bondage of the traditional structure, gradually establish the market notion, the competition notion, and the notion of economic results, and realize the change from the sole production method to the production-management-pathfinding method. They have taken on vitality and vigor, with their economic results continuously improving, making it possible for the national economy to grow continuously and steadily.

#### A Few Problems Existing in Enterprise Reforms

First, we have failed to fully understand the long-range nature and complexity of enterprise reform, set too high targets on some phased reforms, and taken too hasty steps. For example, to set up correct relations between the state and enterprises, we implemented the two-step replacement of profits by taxes, this orientation is correct. In the original plan, the first-step replacement of profits by taxes was to be implemented on a trial basis for 3 years. However, to eliminate the parallel of profits and taxes and to make the system standardized as quickly as possible, the second-step program for the replacement of profits by taxes was pushed forward, when it had been only 1 year since the first-step program was implemented, in some localities the program had never really begun in their enterprises. Because of imbalances in China's economic development and the lack of a unified market, and because prices had not been rectified, the haste in pursuing unified categories of taxes and tax rates resulted in an imbalance between enterprises in benefits and losses, with those enterprises with better economic results pushed harder, and the initiative of enterprises dampened. At the same time, the advantage of the second-step replacement of profits by taxes were obscured. As a result, many local governments have instituted contract responsibility system in various forms to mobilize the initiative of enterprises. For another example,

we aim to achieve independent management in enterprises, and their assumption exclusive responsibility for profits and losses; this orientation is also right. But viewing it now, we find that this phased requirement that the overwhelming majority of enterprises, with the exception of a very few, assume exclusive responsibility for profits and losses by the end of the "Seventh 5-Year Plan" is obviously rather too high to accomplish. Because the degree of market development is very low, and the conditions for the independent management of enterprises are not complete and perfect, it will be impossible for them to genuinely assume exclusive responsibility for profits and losses within 3 to 5 years. At present, the fact that many enterprises are capable of assuming sole responsibility for profits but not the other way round has fully demonstrated this.

Second, we have not exerted enough efforts to invigorate enterprises, to make the market system complete and perfect, and to improve, coordinate and formulate a complete set of macroeconomic policies. This has restricted the role of enterprises' vitality. Although enterprises have been given greater freedom in recent years, many stipulations have failed to be implemented. Studying the causes, we have found that aside from problems in work, the main cause lies in the failure of various aspects of reforms in forming a complete set of policies, as well as in their mutual impedence. For example, because the capital goods market and the capital market have not really taken shape, enterprises' freedom is greatly limited in the selection and purchase of raw materials in marketing through their own channels, and in raising funds as well. This ends in the failure of enterprises to genuinely transform and develop. For another example, because the economic management function of the government has not undergone any radical change, some administrative departments can still exercise their authority in the appointment and removal of cadres, the examination and approval of projects, and the distribution of funds, materials and equipment, and to interfere in enterprises' production and managerial activities, making it very difficult to implement the decision-making powers of the enterprise. To meet the needs of the development of a commodity economy and the market, some enterprises have made some readjustments and reformed their internal administrative organs. However, these organs do not match those at the upper level and are pinned down in many aspects. The consequence was that "the lower level makes a move while the upper level stays put. Whoever makes a move will land in a passive position." Similar cases are numerous.

Third, measures for enterprise reforms lack appropriate guidance, and the phenomenon of requiring unanimity in everything exists. China has hundreds of thousands of industrial enterprises and their conditions vary. In the design and drawing up of measures for enterprise reforms we have failed to give scientific and appropriate guidance in the past few years. We have roughly categorized enterprises into large, medium, and small, without taking into full account the various degrees of enterprises' participation in market activities and making full use of the industrial policy and trade policy. All this gave rise to some blindness and the phenomenon of "a unified crewcut for all." For example, to support the technical transformation of enterprises in recent years we have made allowances for tax

reductions in loan payments. This is, in fact, an act of "benevolent rule." However, because we have failed to differentiate between different circumstances, the measure was adopted universally. As a result, many enterprises retained profits for bonuses after tax. In developing production enterprises seek help from the bank, feeling no pressure for debts, but failed to pay attention to investment results. This practice helped the expansion of investments in fixed assets. In the 1986 budget a balance of more than 60 billion yuan in industrial enterprises loans was estimated, but the profits realized during the same period were only 62.7 billion yuan. There was little difference between the two. For another example, in 1985 national per capita retained profits of enterprises were 799 yuan. Of all enterprises, the materials and equipment supplying and marketing enterprises ranked top, with a per capita retained profit of 2,291 yuan. The per capita retained profit in commercial enterprises was 999 yuan. These enterprises need comparatively few funds for reproduction, but their retained profits were on the high side. On the other hand, the retained profits of some sectors that are pressed for development were on the low side. For example, the per capita retained profits in the communications sector were only 645 yuan, enterprises of public utilities 733 yuan, and industrial enterprises 782 yuan. All were lower than the national average per capita retained profit in enterprises. As a result the transformation capabilities in these sectors were very low, and the irrationality of the industry mix was aggravated.

And fifth, in enterprise reform not enough efforts have been exerted in improving the operational mechanism. To change the long-term situation of too much and too rigid controls over enterprises, the implementation of such measures as allowing enterprises greater freedom, tax reductions, and the concession of profit were necessary at the initial stage of enterprise reforms. However, we have failed to pay attention to improving the enterprises' own operational mechanisms at the same time. The consequence was that some enterprises depend excessively on external conditions, and pin their hopes on an external environment of competition on an equal footing, but fail to exert efforts to improve their internal conditions. Because some enterprises lack a complete and perfect mechanism and sound self-control, short-term malpractices have emerged. For example, some enterprises did not pay attention to increasing their assets value and augmenting their staying power, but exhausted their equipment and lived off their past gains. In the matter of distribution, they compared with each other, and issued bonuses at the cost of production development funds, and so on.

All these are problems in our progress. There are no precedents for us to refer to in many aspects of reforms, and the emergence of problems and setbacks is just a normal phenomenon. The serious analysis of these problems will play the role of a helpful reference.



## The General Concept of the Second-Step Enterprise Reforms

Regarding the guiding idea of enterprise reforms it is necessary to do a good job in dealing with the following relations: The first is the relation between the general goal and the phased targets. Enterprise reforms will have to undergo a long process; we cannot expect success over night. It is necessary to adhere to the general orientation of reforms while possessing explicit and feasible phased targets. We should not do things in haste but in a down-to-earth way, and making progress step by step. The second is the relationship between enterprise reforms and the completion and perfection of the market mechanism as well as an improvement in macroeconomic control. The reforms in these three areas form an organic entity; they are interrelated and indispensable to each other. They must work in coordination in forming a complete set. Enterprise reforms should not be carried out in depth regardless of market conditions, and without macroeconomic control, and the market system and the reform of macroeconomic control should also meet the needs of enterprise reforms. And the third is the relationship between the improvement in an enterprise's operational mechanism and the delegation of power and the concession of profit to enterprises. The focus of enterprise reforms must be placed on improving the internal operational mechanism of enterprises. However, we must coolly see that the decision-making power of large and medium-size enterprises is not too great but far from enough, and their financial resources for self-development are far from excessive and far from the requirement for enterprises to become the main body of investment. With the development of indepth reforms and the increase in the financial resources of the state it is necessary to gradually extend the freedom of enterprises in their independent management and financial resources.

Regarding the focus of enterprise reforms it is necessary for us to exert efforts to improve the operational mechanism of enterprises and to actively explore new ways of pushing enterprise reforms ahead to deeper level. At the same time, we should take into account the continuity of reforms and earnestly implement and absorb measures and effective methods of revitalizing enterprises. It is necessary to further amplify enterprises' sense of self-development and their power of self-control.

Regarding the main contents of enterprise reforms, first it is necessary to explore suitable forms of the separation of power regarding different categories of enterprises, and the focus should be placed on large and medium-size enterprises. Second, it is necessary to further do a good job in all reforms inside enterprises, and to make the economic responsibility system complete and perfect in all forms with contract responsibility as its core, and to mobilize the initiative of the workers and staff. Third, it is necessary to make the enterprise leadership system complete and perfect, and to bring up a contingent of entrepreneurs of socialist enterprises. Fourth, it is necessary to push forward lateral ties indepth. And fifth, it is necessary to actively develop the capital goods and capital market to create the necessary external conditions for invigorating enterprises.

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CSO: 4006/797

## CHEN MUHUA DISCUSSES ACCELERATION OF FINANCIAL REFORMS

Beijing ZHONGGUO JINRONG [CHINA'S BANKING] in Chinese No 2, 4 Feb 87 pp 4-7

[Article in Financial Structural Reform Column by Chen Muhua: "Quicken the Pace of Financial Structural Reforms"]

[Text] Recently leading comrades in the central government and the State Council have issued new instructions on financial structural reforms: Comrade Xiaoping has asked for the acceleration of financial reforms, and Comrade Ziyang has repeatedly emphasized that financial structural reform is an important element in the restructuring of the economic system, and if we fail to make progress here, economic reforms cannot succeed. He also stressed that whether we are trying to revitalize the economy or implement macroeconomic controls, we must have a good financial system. Leading comrades of the central authorities have set high standards for financial structural reform. In recent years banks have undergone some changes and made progress, but as yet they have not adjusted fully to developments in the economy or met the needs of economic reforms.

We have to speed up financial structural reforms, first of all, because of the objective need to coordinate all aspects of the reform process, and secondly, because reform in one area necessarily hastens changes in other areas. Specifically, changes in the following aspects of economic life in China have necessitated the stepping up of the financial structural reforms:

1. The development of lateral economic relations. Development of lateral economic relations is the inevitable result of the development of the socialist commodity economy in China. It is also a major strategic decision in restructuring the economic system. In recent years lateral economic relations have diversified and grown; many enterprise groups have emerged; the scope of lateral economic relations is increasingly being broadened to encompass different regions, different departments, and different enterprises; these relationships have taken on many forms, and some have become highly integrated. But before any lateral economic relationship can be established and allowed to develop, funds must be gathered and distributed laterally. This situation urgently requires the banks to change credit policies promptly and abandon traditional rigidity and separatist mentality, and instead, promote short-term lending and borrowing, and gather and distribute funds laterally to facilitate the development of lateral economic relations.

2. Changes in the form of ownership and method of operation. The form of ownership and method of operation in the Chinese economy have undergone drastic changes in recent years. Today there are many economic forms: the state-owned sector, the collective economy, the individual economy, Sino-foreign joint ventures, and wholly foreign-owned enterprises; the shareholding economy is also being developed. The separation of the right to own the means of production from the right of operation, and the promotion of the shareholding system are important steps in the restructuring of the economic system. This new situation brings new demands to the financial sector and will launch a series of changes in the banking industry. Therefore we should study new conditions, develop new methods, and make full use of credits, interest rates, exchange rates, insurance, and other economic measures to regulate diverse economic activities. In the process of perfecting the socialist market system, opening up and developing capital markets has become the necessary precondition for developing the commodity market, the technology market, and for developing a rational flow of labor. Therefore the development of multi-purpose and diversified, long-term and short-term capital markets is a mandatory move.

3. The reinforcement of macroeconomic controls and efforts to revitalize the economy at the microeconomic level. One important purpose of economic system restructuring is the revitalization and invigoration of enterprises. To enliven the enterprises we must first enliven the banks. If the banks are sluggish, funds become stagnant: the turnover is slow, circulation is poor, and the enterprises too become lifeless. But even in a vibrant economy with vigorous enterprises we must still regulate the economy so that it is dynamic but not chaotic. This requires strong macroeconomic controls. Banks are important economic levers of the government; they provide the effective means to carry out macroeconomic controls. The loss of macroeconomic control in 1984, the success in 1985, and the economic regulatory effects of the selectively lenient funding policy in 1986 have proven this fact. The most important aspect of macro control is to maintain a balance between total supply and demand in society. In credit funds this means that not only must we maintain a balance between the total source of funds and use of funds, we must also maintain a rational mix of long-term and short-term funds, and make use of the bank's economic levers and their administrative and legal means to control the economy and make adjustments. To meet these requirements the banks must change their control mechanisms and their method of implementing controls.

4. Implementation of the policy of opening to the outside world. Under this policy the scope of foreign trade, utilization of foreign funds, and introduction of advanced technologies and equipment from abroad has continued to expand. Tourism, international airfreight, shipping, insurance, contracting for foreign projects, labor and service cooperation are also rapidly developing. These developments make it necessary to upgrade China's international financial and insurance operations because in a commodity economy, industrial capital and financial capital are closely related, and in fact they are one and the same. Investment and industrial developments must be supported and guided with capital funds. This requires that we establish closer contact and cooperate with international financial circles, improve our foreign exchange and foreign debt management systems, revise our currency valuation policy, and develop worldwide insurance businesses to serve our policy of opening to the outside world.

The acceleration of financial structural reforms in 1987 will be particularly significant because, first, this year we must further enliven the enterprises, especially large and mid-sized enterprises, and this requires that we provide them with the proper conditions. Enlivening the banks is one of the necessary conditions. The banks must speed up reforms and strive to become more energetic in order to invigorate the enterprises. Secondly, this year the banks have extra responsibilities in raising construction funds. Developments in the financial sector in recent years have turned the banks into a major channel for gathering and distributing funds. We expect a shortage of funds in 1987, and the banks have to work extra hard to raise more money. We must not fund constructions by printing more money. We must try to gather more funds on condition that the money supply is kept relatively stable. We must explore potential sources of capital, and make better use of the money and realize better economic returns. This necessitates changes: instead of turning to the government we explore our own potentials, increase funds, increase the bank's sources of credit funds, use the funds more efficiently, and thus create more capital for economic development. The Hubei branch of the People's Bank introduced the method of granting loans based on the client's credit rating and the total value of his assets; loans are no longer granted on personal relationship. Such practice has produced good results. Indeed we need reforms in order to make better use of funds. To solve the problem of shortage of circulating funds in 1987, we must find ways to utilize funds more efficiently through reforms. In this year's plan, the banks are responsible for raising a significant portion of their fixed asset investment capital. If we have to obtain the money from the central bank, it would inevitably mean printing more money. We suggest raising extra funds in the capital market, and directing part of society's funds to the state's key projects. This requires opening and developing suitable long-term capital markets to raise construction funds. Naturally, in order to prevent too much extra-plan construction we must set limits and implement controls.

In short, we must accelerate the rate of financial structural reforms. We have some tentative suggestions and measures for this year's overall reforms. In addition to implementing these overall reform measures, pilot cities should go further to strive for more success and breakthroughs. Successful implementation of financial structural reforms in pilot cities is critical because, like the restructuring of the whole economic system, financial structural reform is a complicated process, and during the transition between the old and the new system, we have to deal with many factors and many important policy implications. We have no ready model to follow; we must take one step at a time, and pay attention to our own experiences. This is why we need to set up experimental units and learn from their experiences and use those experiences to guide and push forward overall reform plans. Areas selected to implement pilot plans must continue to forge ahead and carry out duties with determination, contribute to the search for a socialist financial system which best suits the unique conditions in China.

The following are some suggestions on how to implement urban financial structural reforms in the experimental units:

1. Pilot projects must be guided by correct ideologies. Proper ideologies are necessary to guide the experimental units in the right direction and get



good practical results. Under the present circumstances the correct guiding ideologies are: one, have the courage to explore, that is, when confronted with problems in practice, have the courage to explore and come forward with new ideas. Keep an open mind and do a solid job. In formulating tentative reform programs we must have imagination and vision, but in actual practice we must be realistic and practical. Therefore we must not be timid nor rash. An open mind and solid work go hand in hand; they supplement as well as complement each other; we must not emphasize one or neglect the other. Two, look at the facts, and seek truth from facts. Economic conditions as well as other factors are different in different areas and this must be taken into consideration, and provisions must be made, when implementing reforms. Imposing changes without regard for local conditions will only cause problems and adversely affect experiments. Three, experimental units must not intend to profit from the funds. Some comrades in the pilot cities requested participation in the experiment for the money; they see an opportunity to get their hands on some funds, but it is gratifying to learn that many have come around since their participation in the pilot project. If the experimental units are interested only in profiting from the funds, then spending money to create these prototypes is a hopeless effort; these prototypes will not be able to stand up to real tests, and will never succeed. Four, enliven the financial sector, don't stifle it. To enliven the financial sector we must first reinforce macro controls and know when to loosen and tighten control. The extent of macro-economic controls directly affect the vitality of the economy at the micro-economic level. Through reform the economy should be controlled but not dead, enlivened but not chaotic. Therefore, all policies and measures must complement one another and we must not just look at one side; it will be wrong to take hasty steps now and make remedies later when things go wrong, because haste only makes waste.

2. Focal points of the urban financial structural reform experiments. There are three areas of emphases: (a) Establish good financial macro control. Besides targetting the money supply and the volume of credit and controlling them at different administrative levels, pilot cities must learn to make financial plans for society as a whole and control society's overall demand for funds. They must study the impact of economic growth on the demand for capital, study the relationship between long-term and short-term capital, and learn how to set parameters and enhance local macroeconomic control. At the same time, improve the system of reserve requirement as well as other economic levers such as interest rates; learn to make use of the financial market and strengthen the bank's control measures so as to strengthen the macro control of the financial sector. (b) Continue to open up and develop financial markets. The present emphasis is on promoting interbank short-term lending and borrowing and setting up money markets properly. In addition, we must actively develop a long-term capital market: issue stocks and bonds on behalf of enterprises and departments; underwrite stock issues of large enterprises which are well-run and have good credit ratings, and issue bonds on behalf of enterprises which are viable. Banks may also issue their own bonds in limited quantity. In addition to stock and bond issues we need to open security exchange markets. In gathering funds from society we must consider how much of this kind of activity society can support as well as how much the enterprises can withstand; therefore we must estimate the amount of social funds, and because this amount is limited,

we must set parameters and control the total amount and use the funds on state-planned projects. We should also consider the enterprise's economic turns and their profit ratio to determine how much interest they can afford to pay on bonds. We should banish the idea of resorting to bad debts or allowing debts to accumulate without the least intention or means to repay. In short, returns must be the primary consideration in lending and borrowing, and the banks must set rules and tighten controls in this respect. In developing financial markets, especially in opening up long-term capital markets, we should vigorously develop many kinds of small town insurance operations as a steady source of long-term capital funds. In managing the insurance operations, set up a system of reinsurance, and those areas so equipped may open regional, specialized, or collective insurance companies on a trial bases, as well as experiment with pension funds. (c) Operate the specialized banks as enterprises. Banks are special enterprises dealing with currencies and funds; the economic results of the banks, like that of the clients they serve, and the economic results of society as a whole, should be linked together. If we only emphasize the bank's economic results, then the more money they lend the more money they make. But if loans are used to stockpile goods, society's economic results will be adversely affected. For banks to operate as enterprises requires a learning period and much practice and we must thoroughly understand the process and not just think of profit retention percentages or be preoccupied with the substitution of taxes for profit delivery. We must consider all aspects of the bank's enterprise-like operations, and besides addressing the problems mentioned so far, we must also address the issue of allowing the banks to become more autonomous, making them responsible for their own profits and losses, letting them assume their own risks, keeping their funds balanced, and integrating the bank's responsibilities, power, and profits. For example, within the scope of the present banking regulations stipulated by the Ministry of Finance, we should change the practice of distributing bonuses based on the number of people, and base bonuses on economic results, profits, and job performance instead. We should implement the system of contracted responsibility step by step, linking efforts to rewards, that is, the harder one works the more money one makes, so as to motivate the workers and the grass-root units, and finally, change the practice whereby enterprises and specialized banks eat out of the same big pot, and likewise the specialized banks share the big pot with the central bank, and the higher level and lower level banks of the same system also share the big pot. Of course this does not mean that we are going to ignore the question of profit retention or the substitution of taxes for profit delivery. One important task in inducing banks to operate as enterprises is to establish an economic responsibility system whereby banks have to assume their own risks. Under this system, banks will want to consider returns before granting loans, and this will also cut down on external interferences. At the same time, the operation of banks as enterprises means allowing them to offer similar services and letting them compete in the market. As an experiment, customers in pilot cities may choose their banks and likewise banks may pick their own clients and replace the old system whereby banks "monopolize" fund allocations. Efforts to make banks behave more like enterprises must be complemented by turning the industrial, commercial and agricultural enterprises into bona fide enterprises. And while we actively seek solutions to all the problems, we must thoroughly explore all possible ways to make banks behave like enterprises under present conditions.

3. The establishment of financial institutions must be based on economic needs. Our financial institutions are inadequate to meet the needs of a developing socialist commodity economy. We must systematically add new financial institutions under the right conditions as needed by development in our economy. We must not rush headlong into mass action to build new financial institutions for what we build in a hurry will collapse in a hurry. There was a time when workers, farmers, soldiers, students, and merchants all wanted to be businessmen. Today, everybody wants to run a bank. People seem to think that more banks means more money. Certainly, setting up more financial institutions to accommodate changes in ownership forms and management methods is part of the reform process. But from now on, new financial institutions will be opened if they satisfy the following criteria: First, if developments in the economy require new institutions, and then only if they are economically viable. Second, they must be based on economic regions and meet the needs of lateral economic associations. They must not be establishment-type banks or local banks which are in fact appendages of the government. Third, they must be banks that indeed operate in the manner of enterprises. They must be relatively independent and autonomous economic entities not affiliated with any department or special interests. In short, these new financial institutions should be products of reform. They must not become targets of reform as soon as they are set up. The Communications banks, as an example must meet these requirements: it may set up branches in some pilot cities, but this does not mean setting up branches in all pilot cities, but only those that meet the right conditions. Before general regulations and procedures are announced by top administrative offices, local areas should not rush to open new banks without prior approval. Collective-type business organizations may consider setting up finance companies. The "leader" enterprise acts as the guarantor. As for the relationship between rural credit cooperatives and the Agricultural Bank, except for cooperatives in the experimental units in the provinces, cities, and autonomous regions, none should rush into detaching itself from the Agricultural Bank. The Agricultural Bank must continue to provide stronger guidance to the credit cooperatives. Further changes will be considered in the future by studying the experience of pilot cities.

Conditions are very different among different rural areas. We cannot rely on just one model. In short, we emphasize stability in reforming, perfecting and developing the rural financial institutions. The Agricultural Bank is responsible for leading the way in this task. Urban credit cooperatives are relatively new; their business volume is small and they have little experience. At present we should concentrate on their establishment and development, and in general we should not rush into forming mutual banks. In the future, when the urban credit cooperatives are well established, they may decide whether they want to become mutual banks or form other kinds of cooperatives.

4. Leading banking organizations must adjust to new functions. All levels of the People's Bank must serve the whole financial sector. The specialized banks and their branches too must assume new functions and improve services at the grassroots level. Today all levels of leading bank organizations must lend support to the reform, and formulate programs, implement procedures, sum up their experiences, and further promote the reform process. This is an important area where leading organs can serve the grassroots units better, and they can serve the reform by making improvements and strengthening their leadership role.

In guiding financial structural reform, the issue of separation of ownership of the financial institutions from the operation of those institutions must be addressed. Recently, Premier Zhao urged that banks too must separate ownership from operations and allow primary level banks to operate autonomously but within the scope of macroeconomic controls. This is an important issue which must be carefully tested in the pilot cities and districts in order to learn more about it.

Nurturing qualified personnel is now the most important reform issue. Comrade Xiaoping has always emphasized the importance of training financial experts. Premier Zhao repeatedly points out that good ideas and good programs are vital to financial structural reforms, but we also need well-trained personnel, and increasingly we find that our supply of well-trained financial personnel, including management specialists, falls far short of our needs. The success or failure of financial reform depends on the availability of well-trained people and we must pay special attention to this issue. Much has been done in the past couple of years but they are far from enough. We need schools, on-the-job training, and learning through practices. Whether training is conducted in the schools or at work, we need new materials and the latest knowledge to satisfy the needs of the developing commodity economy, especially the needs of developing financial markets.

12986/12859

CSO: 4006/513



## PROPER MANAGEMENT OF FOREIGN LOANS

Beijing JINGJIXUE ZHOUBAO in Chinese 3 Mar 87 p 1

[Article: "A Major Issue in the Stable Long-Term Development of the Economy"]

[Text] Keeping the scope and the structure of foreign loans reasonable and making sure that we have the ability to repay those loans are important aspects which affect the stability of China's long-term economic development.

In order to expedite socialist modernization and construction we have to make use of foreign capital, including all forms of foreign loans. While the policy of opening up to the outside world was earnestly implemented in recent years, our foreign debt has also significantly increased. These loans have positive effects on improving the country's infrastructure, production technologies, our ability to export more goods and earn more foreign exchange and increasing the supply of goods for the domestic market.

But we must pay close attention to the scope and the structure of our foreign debt. Borrowing blindly without consideration for national conditions and our ability to repay will only create serious problems in the future.

Obtaining foreign loans is one way to solve the problem of lack of construction capital in the country. Often we do not have enough money of our own to finance many local construction projects, so we seek foreign loans. But using foreign capital to finance domestic construction requires that we put up ample funds of our own. The more foreign loans we obtain the more we need to increase our own domestic investments. If we do not reasonably limit our foreign debt, we would be increasing our overall fixed asset investments which will create excess demand in society and affect the stability of the nation's long-term economic development.

The reason we emphasize this matter is basically because foreign loans have to be paid back. Not only do we have to repay the principle but we have to pay the interest. In limiting our debt or modifying the way we use foreign loans, the ultimate goal is to speed up the four modernizations so as to increase our ability to pay off these debts.

On the whole this country's actual foreign debt situation is healthy, but we still must recognize that our total foreign debt, both planned and extra-plan,

has risen sharply. Not only has the volume of loans increased but the structure of our foreign debts is becoming worrisome. A large portion of these loans are used to finance projects to produce export goods and earn foreign exchange, but due to unforeseen reasons some of these projects are encountering production problems and are not earning foreign exchange. We should be aware of such problems.

In recent years, we have had a lot of experience in utilizing foreign loans. We keep the level of foreign debts reasonable, and structurally we emphasize the use of these funds for projects which produce major consumer goods for export or as import substitutes. We pay proper attention to improving the debt structure, making sure that the loans have different loan periods, and obtaining loans in several different foreign currencies to more or less correspond to the kinds of currency earned through export. We establish and improve the national balance-of-payment plan, and so on. As long as we continue to learn from experience, we will be able to obtain even better results from foreign loans.

To achieve overall equilibrium of supply and demand in society, we need good financial and credit policies and we need to balance our foreign exchange earnings and payments. If we guard these three areas well, our nation's stable long-term economic development will be guaranteed.

12986/12859  
CSO: 4006/513

## BANKS ADOPT GRADATIONAL ABOVE-QUOTA CONTRACT SYSTEM

Shanghai SHIJIE JINGJI DABAO in Chinese 4 May 87 p 15

[Article by Nui Wenhua [3662 2429 5478], Beijing Industrial and Commercial Bank: "Banks To Adopt Gradational Above-Quota Contract System: Accelerate the Conversion of Specialized Banks Into Enterprises"]

[Text] The main problem facing financial structural reforms today is the stagnation of the specialized banks in the cities. The author feels that although emphasizing macro control and the capital market are essential during financial structural reforms, the issue of operating the specialized banks as enterprises is even more important. The banks must be dynamic before they can meet the needs of the developing commodity economy and the needs of economic reforms, and only then can they foster the development of a vibrant capital market, and enhance macro control.

Assessing The Need to Operate Specialized Banks As Enterprises Based on the Problems in Beijing's Industrial and Commercial Bank

1. The acute shortage of, and failure to replenish, self-owned funds limits the bank's ability to accumulate and grow: the nation's banking system holds 10.78 percent of all bank assets in the form of self-owned funds, and Beijing's Industrial and Commercial Bank controls 2.9 percent; it has only 780 million yuan in credit funds. Nowadays we are basically using each other's money to do business with each other; we are probably the largest "fly by night" company.
2. The bank's expenditures are tightly controlled: basically it is on a budget system like a government's administrative unit.
3. Low percentage of profit retention so that the bank cannot remold itself: last year, of the 1.2 billion yuan in profit, only 25 million yuan was retained, and only 12 million yuan of that was kept as development fund, but after paying for staff trainings, machinery and equipments, and computerization, only 6 or 7 million yuan was left for capital constructions such as new facilities and dormitories, and with construction taxes, miscellaneous charges, landscaping, and the high cost of building materials, 7 million yuan does not go very far.

4. Failure to integrate authority, responsibility, and profit leads to the dampening of enthusiasm among staff and workers: the leaders are focusing on developing new businesses but the workers are motivated only if they are truly paid according to the amount of work; the lack of consistency leads to the failure to develop potential.

5. A key factor lies in the lack of favorable external conditions and commodious environment to stimulate the enterprise-like operations of the specialized banks: the relationship between government and the banks remains tense: on 14 March, the Ministry of Finance notified the banks that they must turn over to the government the commission they earned as agents: putting this kind of pressure on the banks foster laziness and indolence.

Last year, the Industrial and Commercial Bank made a comprehensive study of its existing state of affairs, and pinpointed problems in six areas: the bank was understaffed and could not accommodate major expansion of bank operations; the contingent of staff and workers was ill qualified for the specialized tasks in the financial sector; the level of technology and management skill did not meet modern standards; increases in worker's pay and benefits were not keeping up with higher level of social welfare; serious lack of funds could not support the bank's own efforts to expand operations. These problems persist today. The author feels that during financial structural reforms it is necessary to promptly convert the specialized banks to enterprise-like operations in order to invigorate the financial enterprises, and settle the relationship between the state and the banks, and turn the banks into bona fide enterprises, giving them impetus, drive, and vigor.

#### The Gradational Above-Quota Profit Contract System As The New Way To Enliven The Banking Industry And Operate Specialized Banks As Enterprises

There are many theories on how to operate banks as enterprises, but the author feels the gradational above-quota profit contract system clearly defines the relationship between the state and the financial enterprises, that is, the specialized banks, and is a good way to separate the rights [of ownership and operations]; it is an important measure in furthering the cause of converting specialized banks to enterprises. While yearly increases in state revenues should be guaranteed, the percentage of profit retention by the primary level specialized banks should gradually be increased to enable them to remold themselves and support their own development, so that the banks can truly become financial enterprises which are autonomous and efficient, and can be responsible for their own profit and losses.

#### The Necessity and Feasibility of Implementing a Gradational Above-Quota Profit Contract System

##### 1. Applying the theory of separation of rights to specialized banks:

Can the rights of [ownership and operations] be separated in financial enterprises? The CPC Central Committee's "Resolutions Pertaining to the Restructuring of the Economic System" pointed out that, "based on Marxist theory and socialist practices, ownership right may be properly separated from



right of operations": this conclusion similarly applies to Chinese financial enterprises because, in order to turn financial enterprises into true enterprises, they must be given fairly complete autonomy similar to that enjoyed by the state-run enterprises. The separation of the two rights can stimulate the financial sector.

2. Experimentation with the separation of the two rights has been designated one of the major topics during financial structural reforms:

In January of this year, the State Restructuring of the Economic System Commission and the People's Bank of China jointly issued the "Summary of the Third Symposium On the Tasks of the Pilot Cities During Financial Structural Reforms" in which it was proposed that "in order to learn more about operating specialized banks as enterprises a city branch of a specialized bank will be selected as the experimental unit to implement the separation of ownership and operations rights."

3. Profit is the financial enterprises' business objective:

First and foremost, specialized banks are state banks, therefore they are responsible for developing the economy, stabilizing the currency, and increasing economic results. At the same time, specialized banks are unique enterprises dealing with money and commodities, and like any other enterprises, they must inherently pursue their own economic benefits, and therefore their goal is to make a profit.

As enterprises, the specialized banks must seek profit because:

one, using business revenues to pay for business expenses, and making a profit at the same time, is a basic business principle for all enterprises (including financial enterprises;) this is the principle which fundamentally differentiates an enterprise from a non-enterprise, and distinguishes the system of economic accountability from the system of [government] allocations.

Two, the profitability of an enterprise determines its success or failure as well as its ability to remold itself, and support its own development.

Three, profit is the ultimate norm which measures and reflects the achievements of the specialized bank. Whether we are assessing its ability to gather funds or its ability to use funds effectively, all of a bank's credit fund activities are reflected in its profit level. The level of profit shows whether the bank is attaining its targets, and it reflects in total the results of the specialized banks' operations.

Four, if the specialized banks are to become bona fide financial enterprises, they must act like other industrial and commercial enterprises, and adopt the principle of integrating power, responsibility, and profit so that they and their staff can become more enthusiastic and creative. Using profit as the business objective and the evaluation norm links the interests of the banks and their staff to their business results, and that can be used as the incentive to improve management, increase efficiency, and enhance economic results.

4. Even if the specialized banks are profit-oriented, they will not cause credit level or interest rates to rise and increase the enterprises' burden, nor will they abet shortsighted behavior, in their pursuit for higher profits.

The specialized banks maximize profit so as to increase their own accumulations and enhance their own ability to grow, but they act within the scope of the state's various economic policies and the central bank's monetary policy to ensure that their activities do not damage macroeconomic results. How much money a specialized bank lends out should not be a subjective decision, it should be a decision based on three factors: one, the central bank's macro control; two, limitations of the specialized bank's internal mechanisms; three, self-restraint of the industrial and commercial enterprises. The state sets interest rate policy and the specialized banks must comply diligently. They may maximize profit within the scope of government policy and law. With more financial institutions, customers have a choice of banks, and under competition, the banks will try to develop new businesses, and improve service to attract customers and build a reputation; if a bank arbitrarily raises the interest rate on loans, it will soon go out of business. Profit-contract system also pertains to the increase in the value of fixed assets which means the specialized banks' own accumulation and growth objectives must include plans for long-term business development rather than short-term profits.

#### A Few Suggestions

1. If specialized banks are to operate as bona fide financial enterprises, they must be treated as enterprises and not as government administrative units, and the city branches of the banks should have their share of power as enterprises.
2. Establish a system to replenish self-owned funds.
3. Instead of paying taxes and turning over profits at the bank headquarters level, they should be levied at the local level.
4. Those banks implementing the gradational extra-quota profit contract system may stipulate different ratios in their contract in the event different levels of the banks generate uneven profit levels.
5. Develop other agency services on a fixed percentage commission basis, and use that revenue to subsidize payment for expenses as well as worker's compensation: the harder one works, the more one receives.

12986/12951  
CSO: 4006/683

## BRIEFS

BEIJING PROVIDES PRICE INFORMATION--Beijing's first price information dissemination meeting was held at the Municipal Worker's Gymnasium; more than 2,000 representatives from industrial and commercial circles made use of the information obtained at the meeting to conduct business on the spot. This meeting to deliver pricing information was jointly sponsored by Beijing's Pricing Bureau, the Municipal Economic Information Center, and Beijing's four metropolitan planning committees. Since the markets open up, many enterprises have encountered difficulties in obtaining commodity price information in other parts of the country, and this affects their ability to make the right business decisions. Because of its desire to properly regulate market prices and serve the enterprises better, Beijing's Pricing Bureau makes every effort to deliver promptly to the enterprises nation-wide pricing information it manages to gather. This meeting to deliver price information is a new attempt to serve enterprises better. [Article by Ni Xiaoling [0242 1420 2651]: "Beijing Holds First Price Information Dissemination Assembly"] [Text] [Beijing BEIJING RIBAO in Chinese 25 Apr 87 p 1] 12986/12951

CSO 4006/683

## REGULATIONS ON USE OF HIGHWAY TOLLS

Beijing ZHONGGUO JIAOTONG BAO in Chinese 25 Feb 87 p 2

[Article: "Provisions Governing the Use and Administration of Highway Tolls: Effective January 1987"]

[Text] Highway tolls are charges prescribed by the state, due for payment by units and individuals operating vehicles, to be paid to departments in administrative charge of highways, and to be used for the maintenance and improvement of highways. The following provisions have been adopted particularly for the purpose of ensuring the proper administration and use of toll revenue, to ensure its effective use, to improve road conditions and to satisfy the needs of the developing national economy.

Article 1. The policy that shall be followed in the use of toll revenue shall be one of "overall planning, intensified maintenance, energetic improvements, development in strategic areas, scientific administration, and the guarantee of unimpeded facility for brisk traffic." Toll revenue shall be unifiedly administered by, and be in overall charge of, the provincial highway departments, on the principle of giving consideration to both branch and main highways, with priority to be given to main highways, and of giving consideration to both maintenance and reconstruction, with priority to be given to maintenance.

Departments in charge of highway administration at all levels shall improve the administration of toll revenue in the spirit of State Council document No 44 (1986), "Circular on Strengthening the Administration of Extra-Budgetary Funds." No unit or individual may divert and retain toll revenue, use it for local requirements, or and redistribute it in an egalitarian way. Specific methods of administration shall be determined in consultations between local departments of highway administration and local financial departments.

Article 2. Toll revenue shall be used according to the following schedule:

1. Expenses for highway maintenance engineering work: these include maintenance expenditure for small repairs, engineering costs for large and medium repairs, expenditure for emergency repairs and reconstruction following water damage, engineering expenses for reconstructions, subsidies for new construction, highway ferries, greening expenses along highways, building and maintaining housing for road maintenance (ferry) personnel, subsidies to



counties and townships for road work, survey and planning expenses for maintenance and improvement work, as well as costs of acquiring maintenance machinery, vehicles, and equipment.

2. Expenses in connection with road maintenance affairs: these include cost of highway administration, expenses for construction of factories (plants, warehouses) for special road maintenance machinery, component parts, and materials, expenses for the development of advanced administrative facilities and technologies, highway maintenance research and education, expenses for the investigation of highway conditions and conditions of traffic, expenses for building staff and workers dormitories, expenses for buildings production facilities required by road maintenance sections and stations, and expenses for the state control of highways.

3. Other maintenance expenses; these include labor insurance, welfare expenses for temporary staff and workers, rewards and bonus, medical costs and costs of pensions for disabled or for the families of deceased, costs of ordinary pensions on resignations and retirement of personnel, expenses for children of staff and workers in remote border areas, other taxes and charges to be paid in accordance with government regulations.

Article 3. Ratio of toll revenue allocation: The proportion to be annually used for maintenance engineering purposes must not be less than 80 percent of the total toll revenue. It must, first of all, ensure satisfying the needs of small repairs and large and medium engineering expenses, followed, as funds permit, by arrangements for all other engineering projects. Regular maintenance expenses must not be forced out by expenses for new buildings and construction.

Article 4. The annual plan of toll receipts and expenditures must be balanced and compiled by the provincial highway administrations and submitted to the provincial (autonomous region, directly administered municipal) communications department (bureau) and planning commission for examination and approval, whereupon the plan shall be passed down to lower authority for execution. After check and approval, the annual toll plan shall be transmitted to the Ministry of Communications for their record, with copies to the provincial (autonomous region, directly administered municipality) bureaus of finance, economic commissions, audit bureaus, and banks for their examination and record.

Responsibility for the implementation of the annual toll plan rests with the highway administrations; the provincial highway administrations are responsible for supervision and inspections.

Should large increases or reductions in the budgeted figures become necessary during the execution of the plan, the annual plan may be adjusted according to the above procedure. Any surplus in a certain year's toll operations must be included for use in the following year's plan.

Article 5. For surplus derived from toll revenue, a system of proportionate sharing shall be instituted. The proportionate share of prefectures (cities)

and counties shall be determined in negotiations between provincial (autonomous regions, directly administered municipalities) communication departments (bureaus), planning commissions, and finance departments (bureaus) and the result of their negotiations shall be passed down to lower authorities. Any portion retained for use shall be applied according to the schedule prescribed in Article 2, and a large part shall be made a production development fund. These funds shall at the same time be subjected to strict plan control according to the provisions of the various local plan administrations.

Article 6. Road renovation as well as large and medium road restoration projects of the annual plan must observe the provisions of the "Preliminary Regulations Governing the Classified Scope of Highway Engineering Works" and the "Regulations (Tentative) Governing the Administration of Highway Maintenance Engineering Projects," promulgated by the Ministry of Communications, requiring completion of all work prior to construction, the compilation and checking of all plans, cost estimates and budgets, the sound organization of project execution, and improved economic accounting, also, after completion of work, to promptly comply with acceptance procedures for all work executed and final accounting for all expenditure as in accordance with the originally approved plan.

All small road maintenance work, as well as large and medium engineering projects, shall be carried out under a contract responsibility system, with full responsibility being assumed for investments, and a system of internal economic accounting and auditing. New highway engineering projects and renovations must be carried out using the method of inviting tenders, drawing up cost estimates and budgets, and with assumption of responsibilities until project completion.

Article 7. The policy for construction and maintenance of county and township roads shall be continuation of what is expressed in the terms "run by the local people and subsidized by the state," "civilian labor used in public construction projects," and "built by the people themselves and maintained by the people themselves." Main source of funds shall be a toll collected from walking tractors and animal-drawn vehicles, additional local revenue, and other funds raised locally. Shortages in poor districts may be made up by subsidies from provincial (autonomous districts, directly administered municipalities) toll revenue.

Article 8. Materials and equipment required to fulfill the road maintenance engineering projects of the annual plan handed down from provincial (autonomous regions, directly administered municipalities) communication departments (bureaus), as examined and approved by the planning committees, shall be unifiedly arranged for in the supply plans at the provincial level and supplied accordingly.

Article 9. A unified road maintenance accounting system and all legal provisions of the state relevant to the management of finances shall be conscientiously carried out. All units must compile plans showing the intended use of funds, in accordance with approved annual toll plans and project budgets, such plans to be submitted to higher authority for approval,

so that the relevant authorities may allocate funds according to schedules and work contracts. The subsidy portion of highway maintenance expenditure for highway construction projects included in the state plan shall be administered according to the method for investments provided for in the state budget and according to the system applicable to capital construction.

Article 10. In case of unauthorized design alteration, expansion of scale of construction, raising of construction norms, increases in project budgets, plan changes, or excesses of the scope designated for use of toll funds, the financial departments and banks shall have the right to refuse fund allocations.

Article 11. Units using toll funds must at prescribed times prepare annual final accounts of toll funds used, to be submitted by each level to its superior highway administrative department for examination and approval, there to be combined and submitted to the provincial department in charge of highway administration, which shall transmit such accounts to the finance department at the provincial level for approval.

Article 12. All departments in charge of highway administration, as well as finance departments, must make it the key point of their investigations and verifications to check whether the expenditure of toll revenue has conformed to the scope prescribed by state regulations. Any expenditure of toll revenue that does not conform to the provisions of Article 2 of the present provisions constitutes a violation of financial and economic discipline. If the permissible scope was exceeded or such funds were diverted to other construction or purposes, the banks have the right to refuse payments, and the various highway administration departments, as well as audit and finance departments, have the right to investigate and claim compensation.

Article 13. Departments in charge of highway administration at all levels shall at regular and irregular intervals conscientiously check the way units under their jurisdiction execute the annual plan for road maintenance expenditure. They must effectively prevent squandering or diversion of such funds. In case of serious violations of discipline, prompt action shall be taken.

Article 14. An internal auditing system shall be instituted for receipts and expenditure of toll funds. All departments in charge of highway administration must institute internal audits of receipts and expenditure of toll funds within their jurisdiction and of the way these funds are administered, and shall, furthermore, report their findings to the audit department at their own level, as well as to the higher authority in charge.

Article 15. Whenever finance and audit departments and banks at all levels carry out supervision, investigations, and audits according to state regulations on the strengthening of control of extra-budgetary funds, units and departments subjected to investigation or audit shall actively cooperate, promptly furnish all relevant data, accounting records and documents, and shall on their own accord report on relevant conditions, to ensure smooth progress of audits. In case of economic crimes, they must consult the units concerned and promptly institute prosecution, handing the case over to the relevant organs for investigation and due disposition.

Article 16. The present provisions shall prevail in all cases where previous provisions on toll funds conflict with the present provisions.

## RENMIN RIBAO ARTICLE ON STRENGTHENING AGRICULTURE

HK301255 Beijing RENMIN RIBAO in Chinese 22 Jun 87 p 5

[Article by Li Kan (2621 0170): "Strengthening Agriculture Must Be Put In an Important Strategic Position"]

[Text] Since the 3d Plenary Session of the 11th CPC Central Committee, in the wake of the implementation of a series of the party's principles and policies on the development of agriculture and of the unremitting deepening of rural reform, our Xingtai Prefecture has reaped a bumper agricultural harvest for years running. The social gross output value (ruling price) of the rural areas throughout the prefecture in 1986 amounted to 4.1 billion yuan, an increase of 24.3 percent over 1985 and an increase of some 300 percent over 1978. Of this, the gross agricultural output value was 1.62 billion yuan, an increase of 3.8 percent over the previous year and an increase of nearly 100 percent over 1978. The output value of the township and town enterprises already exceeded the gross agricultural output value and the township and town enterprises became a pillar industry of the rural economy. The peasants' living standard was continuously raised and the per capita income recorded an increase of some five times over 1978.

However, in the excellent situation, some leading cadres have only seen the unprecedented briskness and development of the rural economy but have not seen that agriculture does not suit the development of the other industries, nor have they seen the agricultural latent problems. They have the ideas of despising and relaxing agriculture at different degrees. There are three relatively universal and salient problems: 1) Leaders at all levels have obviously devoted their energies less to agriculture and grasped agriculture less energetically and some agricultural functional departments have also relaxed their specific guidance to agriculture. 2) The investment in agriculture has dropped by a wide margin. The investment in farmland capital construction has dropped year after year. According to statistics, the investment in this aspect of our prefecture was 10,545,000 yuan in 1980 and dropped to 5,071,000 yuan in 1984. Although the investment in farmland capital construction increased after 1985, it still did not reach the 1980 level. The amount of fertilizers applied on the soil by the peasants and the amount of work done by the peasants to the land also diminished. According to the investigation conducted by departments concerned, the amount of chemical fertilizers applied on each mu of grain field in 1985 was 22.7 percent less



than in 1984 and the amount of work 25 percent less. 3) Effective services provided for agricultural production have become less. At present, the service system of some counties and the majority of villages is imperfect and incomplete and does not function or work well. Services necessary for agricultural production, including the cultivation of superior seeds, plant protection, the supply of means of production, the prevention of animal diseases, and insurance, are fairly weak. Some of them are not tended by anyone. Many difficulties encountered by peasants in the course of production and operation cannot be solved.

The main reason for the above-mentioned problems is that the idea of regarding agriculture as the foundation has not been firmly grasped. Some cadres have held that the rural industrial structure must be readjusted and more energies should be devoted to the secondary and tertiary industries. Some cadres have been unrealistically optimistic about agriculture over the past few years and while seeing that some places once "found it hard to sell grain" and "found it hard to sell cotton," have thought without analyzing the situation that they are abundant in grain and cotton and that agriculture has developed satisfactorily. Furthermore, following the development of rural commodity production, some cadres have felt that by engaging in agriculture, they earn money slowly and the benefit is low. They would rather be engaged in industry and commerce than in agriculture because their income will be higher and they can get rich soon in this way.

To strengthen leadership over agriculture, we must first profoundly understand the strategic position of agriculture. Agriculture, as the foundation of the national economy and the development of agricultural production, not only has a decisive influence on the national economy as a whole but also plays an important part in solving the problems of urban and rural people's livelihood and in consolidating the political situation of stability and unity. As Comrade Deng Xiaoping pointed out: "If there is a complication in agriculture, the situation cannot improve in 3 to 5 years." "While engaging in the macroeconomy, we must put agriculture in a proper position." This explains that agriculture is in a fundamental position in economic construction and social life. China is a large country and has a population of 1 billion, 800 million of which are peasants. Showing concern for agriculture means showing concern for 800 million peasants and strengthening agriculture means strengthening the foundation of the development of the national economy as a whole. If we neglect agriculture and relax leadership over agriculture, we will be divorced from the masses, will be slow in giving guidance to economic work, and will even be punished by an objective law. Judging from the practical situation of our prefecture, over the past few years, following the development of rural commodity production, the secondary and tertiary industries have begun rising but peasants really "leaving land" have been in the minority. Seventy to 80 percent of peasants cannot leave the land and must live off agriculture. Although the peasants' living standards have improved relatively greatly, they are still lower than that of many advanced prefectures. Last year, gross output of grain of the whole prefecture was 1.65 billion kg, the average per-mu yield was 166 kg, and the average amount of grain owned by each person was only 350 kg and did not reach

the national average level. Judging from the present situation, for a fairly long period of time, we must rely on the development of agriculture to improve the living standard of the majority of peasants. If we are divorced from this reality in guiding rural work, we are divorced from the practical situation and the masses. We must also see that agricultural production at the present stage is still restricted by natural conditions and dominated by "the heavens" to some extent. We must, therefore, keep a clear head about agricultural problems and not neglect them. This demands that our leading cadres at all levels firmly establish the idea of regarding agriculture as the foundation, in ideology and work, really put agriculture in an important position, spend more energy and time on studying agriculture, and arrange for sufficient and energetic cadres to grasp agriculture to ensure the unremitting strengthening and development of agriculture.

The key problem of strengthening agriculture is to further deepen rural reform. According to the spirit of a series of the documents of the central authorities on rural reform, all aspects of work of rural reform must be carried out item by item. At present, it is necessary to firmly grasp three principles: 1) We must lay stress on mobilizing peasants to engage in agriculture, arouse their enthusiasm for developing grain production and the commodity economy, and continuously raise the peasants' income level. 2) We must emphasize laying a good foundation, strengthen the momentum in agriculture, and enhance agricultural productive forces. 3) We must devote ourselves to opening up and invigoration and build socialist agriculture with Chinese characteristics. Proceeding from this guiding ideology, we must further perfect and form a complete set of reform measures, bring the whole benefit of policies into play, be bold in carrying out exploration and bringing forth new ideas, and promote the development of in-depth reform. We must now unremittingly perfect the system of ordering grain and cotton by contract, implement all measures, and try in every possible way to guarantee the completion of the tasks of ordering grain and cotton. We must vigorously develop multicomposition, multilevel, and multiform circulation network, particularly give full play to the main channel role of supply and marketing cooperatives at all levels to facilitate peasants' purchase of means of production and means of subsistence and their sale of agricultural and sideline products. It is essential to invigorate the accommodation of funds in rural areas, to vigorously develop credit among the people, to run credit cooperatives into financial organizations under peasants' collective ownership, and to solve the problems of lacking funds for developing production which shackle peasants. It is imperative to correctly implement the principle of "never relaxing grain production and vigorously developing the diversified economy," to readjust the rural industrial structure on the basis of the steady increase in agricultural production, and to vigorously develop the secondary and tertiary industries. Township and town enterprises must develop in a balanced way, develop in a planned way a number of competitive trades as well as famous, good, and new products, gradually build up an urban-rural economic setup with local characteristics, and open up a new road which suits the practical development of our prefecture's rural economy.

To strengthen agriculture, it is imperative to increase investment in agriculture. At present, as the state's investment in agriculture is limited by the financial resources, the state cannot increase much investment all of a sudden. It is, therefore, an extremely urgent task to keep the investment orientation correct and to concentrate the limited financial and material resources on the strengthening of agricultural fundamental construction. It is necessary to increase "hard investment" in the aspect of fund and materials. We must adopt the method that the state, collective, and individuals must simultaneously make efforts to increase investment. Apart from appropriating some funds to support agricultural capital construction, the prefecture and its counties can also adopt the method of issuing loans with a discount interest to provide more support-agriculture funds. A certain proportion of all places' income from the development of township and town enterprises, particularly the accumulations of collective enterprises, must be appropriated to subsidize and build up agriculture. The support-agriculture fund of the state and collective must be spent on the repair and construction of large and medium-sized farmland water conservancy projects. It is necessary to formulate policies to encourage peasants' investments, to do organizational and coordinated work well, and to spend peasants' surplus funds on building complete sets of small projects and on the expansion of reproduction. Next, it is essential to increase "soft investment" in science and technology. We must do well in popularizing and applying the present scientific and technological achievements, conduct technological training in a planned way and well, improve the quality of all laborers, and tap the latent capacity. We must grasp well the implementation of the "spark plan" and strive to make a new breakthrough in key agricultural technology. We must vigorously develop and perfect county, township, and village comprehensive technological development and service organizations and specialized technological service organizations, put the county-level technological market on a sound basis, and promote the quick shift of scientific and technological achievements to the production sphere. Moreover, we must encourage peasants to make developmental investment. Our prefecture has many mountains, much land, and rich resources but many natural resources have not yet been exploited. Of the 10.18 million mu of arable land throughout our prefecture, 1.68 million mu of sandy wasteland has not been fully utilized. Some undeveloped mountains in the mountain areas have not yet been effectively harnessed. We must adopt special policies to encourage and direct peasants to carry out exploitation and to plant trees and fruit trees and to breed livestock and fish where suitable, and must carry out agricultural production in depth. In addition, we must concentrate our forces to speed up the building of 10 commodity production bases, including grain, watermelons, green Chinese onions, peppers, medlars, animal husbandary, forestry, and fruit trees, which have initially taken shape, and gradually turn them to the strong points of the regional economy with the characteristics of this prefecture.

To strengthen leadership over agriculture, we must do well in providing services. Peasants have encountered difficulties in cultivation because our leading cadres have not done service work well and really resolved difficulties for them. Peasants' enthusiasm for cultivation has dropped not only because the prices of grain and cotton have dropped but also because they

have been unable to buy chemical fertilizers, diesel oil, and agricultural chemicals. In fact, our service work does not suit peasants' production and operation. When peasants want to carry out farming well, their needs for chemical fertilizers, diesel oil, and electric power cannot be satisfied. When the market opens, peasants can hardly establish stable ties with the market and production often becomes divorced from marketing. This therefore demands that we further perfect the county, township, village service organizations. Proceeding from peasants' needs in the course of production and operation, the counties, townships, and villages must establish a series of coordinated service structure of supplying means of production, giving agricultural technological guidance, processing agricultural and sideline products, transport, and marketing to provide peasants with highly efficient good-quality service.

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CSO: 4006/739



CENTRAL-SOUTH REGION

REGIONAL

HUNAN CPC DISSOLVES NONPERMANENT OFFICES

OW281149 Beijing XINHUA Domestic Service in Chinese 0705 GMT 25 Jun 87

[Text] Changsha, 25 Jun (XINHUA)--The Hunan Provincial CPC Committee and the provincial people's government recently dissolved 72 nonpermanent offices of organizations directly under the provincial authority to improve the work efficiency of these organizations.

Before that, organizations directly under the provincial authority had 141 nonpermanent offices. Those offices played a given role, but many of them aggravated malpractices in office work.

The Hunan Provincial CPC Committee and the provincial government also took specific measures to prevent the increase of nonpermanent offices. They also called for sorting out and reorganizing nonpermanent offices in various parts of the province.

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CSO: 4005/826

## HUNAN CIRCULAR URGES CRACKDOWN ON BUREAUCRATISM

HK290903 Changsha Hunan Provincial Service in Mandarin 0000 GMT 29 Jun 87

[Text] On 24 June, the provincial discipline inspection commission issued a circular, calling on party organizations and discipline inspection commissions at all levels to conscientiously investigate issues caused by serious bureaucratism.

The circular said: The catastrophic fire in the Daxinganling Forest center means a serious warning to all departments, enterprises, undertakings, and units throughout China.

The circular demanded that party organizations at all levels organize their party members and cadres to conscientiously study the State Council's 6 June decision and the relevant speeches delivered by leading central authorities comrades, and to achieve a deep understanding of the harmfulness of bureaucratism. In close connection with their own real conditions, party organizations at all levels must conduct discussions on manifestations of bureaucratism and flaws in managements and adopt measures to resolve such manifestations and flaws. Regarding the existing issues caused by serious bureaucratism, it is imperative to conscientiously investigate and ascertain the relevant leaders' responsibilities in this regard. Discipline inspection organizations at all levels must conscientiously investigate and ascertain the relevant parties' responsibilities for serious cases of bureaucratism. Regarding the losses suffered by the party and the people as a result of serious bureaucratism, all the relevant parties must be properly investigated, handled, and punished. We must not be indulgent or over lenient toward such parties. It is forbidden to adopt bureaucratic attitudes toward bureaucratic issues.

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CSU: 4005/826

## NANFANG RIBAO PRESSES REFORM, DISCARDING OSSIFIED CONCEPTS

HK300201 Guangzhou NANFANG RIBAO in Chinese 26 Jun 87 pp 1, 3

[Commentator's article: "Only by Discarding Ossified Concepts Is It Possible to Push Forward With the Reform"]

[Text] It is 8 years now since the CPC Central Committee and the State Council decided to allow our province and Fujian Province to implement "special policies and flexible measures" and to take the lead in the reform and opening up to the outside world. Over the past 8 years, Guangdong has continuously eliminated interference from both "leftist" and rightist ideologies, and achieved great successes in the reform and opening up to the outside world by adhering to the two basic points of the line of the 3d Plenary Session of the 11th CPC Central Committee. Practice has shown us that adhering to the four cardinal principles and the general policy of the reform, opening up to the outside world, and invigorating the domestic economy is the fundamental guarantee of building socialism with salient Chinese characteristics. At present, in order to push forward with the reform, it is vital for us to eliminate the influence of the force of habit and discard outdated, stagnant, and ossified concepts.

Our reform was started according to the demands of the broad masses of the people and the historical trend, at a time when our national economy was thrown on the verge of collapse by the "Cultural Revolution." So, our reform has had the widest support of the masses. We can say that the reform is the trend of the times and the desire of the people and no force can turn back the trend of the reform. However, any reform will inevitably despise or destroy some old "sacred things." Under the influence of the force of habit and ossified concepts, many people have only been able to understand the reform, abstractly, but very often they fail to understand or even negate some of the specific reform measures. When the system of contracted responsibilities on a household basis, with remuneration linked to output, was first implemented in the rural areas, some people thought that the implementation of the system was the "restoration of capitalism." Therefore, they consciously or unconsciously resisted the implementation of the system of contracted responsibilities on a household basis with remuneration linked to output in the rural areas. It was not until 1983, when the activities of the reform and opening up to the outside world carried out in the Zhujiang Delta had greatly pushed forward the development of the commodity economy, that some counties in the mountainous

and rural areas of Guangdong began to implement the production responsibility system. Facts have shown that it is impossible to carry out the reform without eliminating the influence of the force of habit and discarding ossified concepts.

The reform, opening up to the outside world, and invigorating the domestic economy are the new contents of our party's line since the 3d Plenary Session of the 11th CPC Central Committee. In the process of the reform, opening up to the outside world, and invigorating the domestic economy, we are bound to meet both "leftist" resistance and rightist interference. For example, we should learn a serious lesson from the recent spread of bourgeois liberalization ideology in our country. The struggle against bourgeois liberalization ideology will continue to be carried out earnestly for a long time to come in the future. However, we should not take it for granted that the main obstacle to reform in the entire reform process is rightist interference, merely because of the emergence of bourgeois liberalization ideology. This is because both our province's practice in the reform and opening up to the outside world over the past 8 years, and the overall process of building socialism with salient Chinese characteristics, have shown that the main obstacle to reform has been the influence of "leftist" ideology, the force of habit, and ossified concepts. Since bourgeois liberalization ideology openly advocates "total Westernization" and opposes the socialist system, bourgeois liberalization ideology is opposed by our party and our people. So long as we adopt a clear-cut stand in the struggle against bourgeois liberalization ideology, it will not be too difficult for us to solve the problem of bourgeois liberalization. However, because of the strong influence of the old structures and old habits which have been formed over the past decades, "leftist" practices, which are often under the banner of adhering to the four cardinal principles, can still cheat and threaten people. Thus, it is more difficult for us to see through and resist "leftist" practices. Either trying to negate the reform by opposing the four cardinal principles, or trying to negate the four cardinal principles by opposing the reform is, in the final analysis, to negate socialism with salient Chinese characteristics. At present, in order to greatly push forward with the reform, we must eliminate the resistance of "leftist" ideology. It is impossible to carry out in-depth reform without discarding ossified concepts.

As far as methods of thinking are concerned, the reason why ossified concepts are deeply rooted in our society is because some people have completely ignored the actual conditions of our country, have taken it for granted that certain one-sided or even erroneous understandings of socialism are correct, and have regarded certain one-sided and even erroneous understandings of socialism as the fundamental characteristics of socialism. As a result, whenever we talk about socialist public ownership system, some people will think that the higher the degree of public ownership, the better. Therefore, these people will readily regard the contract system of responsibility linked to production as capitalist system; and whenever we talk about the superiority of socialism, these people will think that the superiority of socialism means "everyone eating from the same big pot" and the "iron rice bowl." In this way, these people will readily think that the policy of allowing some people to become prosperous earlier than others, the distribution system, the



employment system, and some other systems such as the contract system, are capitalist practices. What is more, for the same reason these people will turn to adhere to practices, which have long been proved to be detrimental to the development of the social productive forces, as socialist principles. This is the core of the ossified concepts and many "leftist" practices and ideologies have been associated with it.

What is noteworthy is that although the ossified concepts and views have been constantly exposed over the past few years, they have still emerged whenever they had the opportunities to emerge. Recently, when we carried out the struggle against bourgeois liberalization in the process of the reform and opening up to the outside world, some people again turned to view the reform and opening up to the outside world with their ossified concepts; some regarded the practice of contracting and leasing enterprises as the "practice of the private ownership," some regarded the implementation of the factory director responsibility system as "abolishing the party's leadership," some regarded the development of the socialist commodity economy as "capitalist practice," some regarded the practice of opening up to the outside world as the root cause of the spread of bourgeois liberalization ideology, some even equated reform of the political structure with negation of the party's leadership, some regarded the just democratic demands of the people as bourgeois liberalization, and so on. According to these people, the reform, opening up to the outside world, and invigorating the domestic economy are all "capitalist practices." Facts have shown that the problem of theory being divorced from reality is still very serious at present. To analyze questions with ossified and outdated concepts and views will certainly lead people to reach "leftist" conclusions, and belittle, or even negate, the great reform cause we are carrying out at present.

Since our goal is to build socialism with salient Chinese characteristics, so adherence to the four cardinal principles conforms with the reform and invigoration of our domestic economy. Therefore, we must combine theory with practice and study the new situations and new questions that have emerged or will emerge, in the process of the reform and opening up to the outside world, by applying Marxist theory, stand, and method. In the practice of building socialism with salient Chinese characteristics, the level and depth of the theory will certainly determine the level and depth of the practice. However, the present problem is that although our province has made many breakthroughs in the practice of the reform, opening up to the outside world, and invigorating the domestic economy, we have not yet been able to theoretically sum up and explain our successful experiences. That theory has lagged behind the practice will inevitably hinder further in-depth development of the practice. So, to smash the trammels of ossified concepts and views and push forward with the reform is our common task. Here, the theoretical workers will certainly have a more important task. As far as the whole country is concerned, our province has taken the lead in carrying out the reform and has accumulated rich experiences so that our province has created realistic conditions for the theoretical workers to "take the lead" in theoretically summing up and explaining Guangdong's experiences. So long as Guangdong's theoretical workers further emancipate their minds, boldly carry out theoretical explorations, and raise the fresh experiences of the province to a higher theoretical level, Guangdong will certainly make more contributions to building socialism with salient Chinese characteristics.

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August 24, 1987

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